

TAXATION

In the Modern State

Alzada Comstock



Longmans' Economics Series

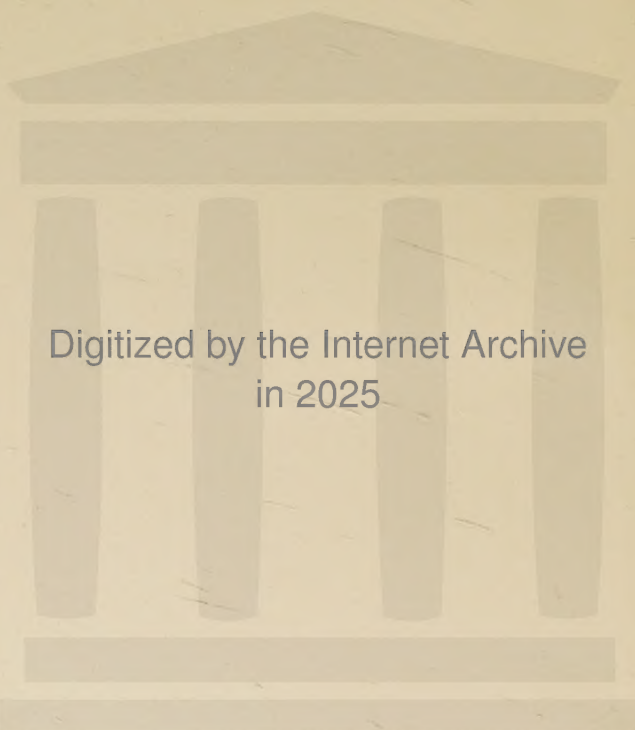


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TAXATION IN
THE MODERN STATE

Longmans' Economics Series

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TAXATION IN THE MODERN STATE

BY

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COMSTOCK
TAXATION IN THE MODERN STATE

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PREFACE

WITH the passing of the first decade after the World War the task of distinguishing the transient from the relatively permanent effects is becoming easier. In the field of public finance the major changes are still almost unnoticed, for upon the subject the dead hand of tradition rests heavily. Industry and commerce have had better treatment from their biographers. Works which have appeared in those fields since 1918 tend to give space to new routes and new products. Volumes which deal with fiscal affairs have too often the scope and content of pre-war studies.

The student of today must go to reports of the Ministries of Finance or to compilations made at Geneva if he is to know how the national governments of today get their money and how they spend it. There he may learn many new things: sales taxes, ignored in his texts, will appear as one of the two most productive taxes in modern history; capital levies, of which he has heard little, will still have their assigned places in certain budgets; excess profits taxes, about which he may have been asked to learn a great deal, will have disappeared; and customs revenue will be surprisingly large, for although he has heard much about protection, he will almost certainly be ignorant of the value of commodities as sources of revenue at the frontiers.

The writer has been continually handicapped in the teaching of public finance to undergraduates by the

absence of any text or study which deals with national fiscal habits of the post-war years. The present volume represents an attempt to fill that gap by stating and analyzing those post-war tendencies which show signs of permanence. If profundity has been sacrificed to vigor at any point, the field for future volumes with a similar purpose becomes the more attractive. It is my hope that a succession of studies in this field will build up the subject to the status which it had before the World War impaired the value of the traditional treatment.

I am indebted to Miss Helen Demond, Instructor in Economics at Mount Holyoke College, for assistance in research and in the preparation of tables. The *American Economic Review* and *Barron's* have kindly permitted the use of material which first appeared in their pages.

ALZADA COMSTOCK

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TAXATION IN
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CHAPTER I

NATIONAL FINANCE AFTER THE WAR

Permanence of fiscal changes.—Revenue and expenditure are two of the several functions of national economic life which are slow to revert to the character which they had before the World War. More from expedience than from calculated policy the nations were compelled to alter their budgets in nature as well as in scope after 1914. Later they were to find that although government emergency departments might be abolished, devastated villages reconstructed, and disrupted industries reëstablished, expenditure and taxation would not shrink to their former dimensions.

Even in the United States, where the per capita burden in relation to income is relatively light, the public is slowly learning, as budget after budget passes into history, that extensive taxation has come to stay. As Professor Haig pointed out in 1927, the aggregate (federal, state and local) tax collections in the previous year surpassed the peak figure for the war years.¹

¹ R. M. Haig, "Eight Billions in Taxes," *World's Work*, vol. 53, no. 5 (March, 1927), p. 494.

Changes in type.—The public is partly unaware of the change in the scope of national tax systems which has come since 1914, and almost oblivious to its character. In the field of the important taxes there have been two major changes. Income taxes have been pushed up to unprecedented rates and yields, and they have remained near their peaks, holding the position of the most important and most conspicuous revenue producers in nearly every country of the world. In the second place, sales or turnover taxes have been introduced in all the principal industrial countries except Great Britain and the United States, and have there reached second and even first place in fiscal importance.

These are structural changes in national budgets of which the student of post-war affairs should not be ignorant. Unfortunately they have been largely ignored in recent literature. It is an amazing omission, for we live in an age which leans heavily upon economic interpretations of events and changes. These two major tax changes directly reflect the growth of industry and commerce which supplies the classification for the nations which we commonly call the "great modern industrial countries."

In making the comparisons among the five great countries which are to follow it will be necessary to treat the national fiscal systems of the United States, Great Britain, France, Germany and Italy as if those systems were comparable. In fact, however, they rest upon fundamental constitutional differences. The United States has a federal system under which few objects of expenditure, with the exception of those which are for war or have arisen from past wars, are permitted to the national government; nearly all functions are performed by the individual American states and by the localities. Germany, nearest to the United States in this respect of all the large coun-

tries, has a federal system which grants more extended privileges to the national government. Great Britain, France and Italy are centralized states in which the provinces have small or negligible functions.

In the field of taxation these constitutional differences are of less importance than in the field of expenditure. The American national tax system is now closer to that of Great Britain than to that of any other country; while it is unlike that of Germany, in spite of the similarities of federal structure. In short, however national governments may be forced to spend their money, they derive it in the ways suited to their national fiscal and commercial traditions, ignoring as far as possible political differences.

Modern taxes and commerce.—The income tax yields of the present are made possible by the large volume of money earnings from services, exchange and intangibles. The sales tax receipts of today arise from the enormous size of daily, monthly and yearly turnover in commercial transactions in the principal countries. They may or may not render pre-war fiscal theory obsolete; in either case pre-war fiscal theory must sooner or later be reviewed in the light of present-day fiscal practice, for it is already two or three decades behind that practice. The sales tax is almost entirely neglected in post-war studies, although it bears the signs of being the second tax in importance in the world of today. The income tax has fuller treatment, for the foundation of that treatment was laid in the pre-war years. Old taxes, fallen into obscurity and nearing disuse, are still occupying attention to a degree which their present position does not merit and which should be relegated to studies made from an historical point of view.

General fiscal reform.—A wind of reform has swept European ministries of finance clean as they have never been swept before in the world's history. Within half a decade nearly every tax system on the Continent has been

modernized and subjected to fundamental changes. Germany, undergoing the external pressure for reparation payments, had its fiscal affairs examined and severely criticized by the Dawes Committee in 1924. The tax reforms necessary to produce larger sums, and to produce them in an equitable and dependable manner, were promptly introduced. To say that the German system is fully modernized or perfected would be claiming much, for there are no standards of comparison; no country is exactly like any other in its fiscal needs and its economic resources, and Germany's position is unique in many ways. It may be said, however, that the system is up-to-date, meaning that it is adapted to the existing industrial, agricultural, commercial and political life of Germany, and as efficient as experts within and without can make it.

France, like Germany, has undergone fiscal reform. No reparation payments were demanded of her, no complete devaluation of currency occurred, and no outside help was asked or given. Nevertheless, in response to urgent Treasury needs and inadequate tax receipts, a committee of experts made emergency recommendations for tax reform in a financial crisis in 1926, and the French tax system was revised in order to bring in revenue under existing conditions. In that year France joined the company of states which gave recognition to new fiscal emergencies and conditions.

Experts' reform plans.—Thoroughgoing fiscal reform has been carried through under outside expert supervision elsewhere in Europe. Austria and Hungary both reached almost complete budgetary and monetary chaos, the former in 1922 and the latter in 1924. Each was aided by an international loan under a plan prepared by the Financial Committee of the League of Nations. One of the major premises in each case was complete budgetary

reform and the revising of the tax system along adequate modern lines. The economic resources and activities of the two countries were studied, and different recommendations made for the two. Financial reform for both countries was nominally completed in 1926, at which time they emerged with balanced budgets and with tax systems which showed the characteristics described above: sales and income taxes of the post-war type.

Italy revised its tax system in accord with fiscal and social theories which made themselves felt after the Fascist Party came into power in 1922. The minor countries to a considerable extent shared the reforms and emerged with the tendencies which the major commercial countries show. The United States and Great Britain have changed, but they have undergone no distinct reform or reconstruction as a movement, perhaps because neither has been disrupted economically or politically; and both were able to keep out of serious currency difficulties during and after the World War.

Accessibility of information.—Further help towards a clear view of modern fiscal practice will be found in the published records of these years when it is sought. Information concerning the affairs of the important industrial countries has been made accessible at just the time when the public is becoming better educated in these matters and more fully aware of their fundamental significance. The Dawes Report was published officially in French and English and was widely distributed and read. The reports of the Agent-General for Reparations appear in the languages in international use and they are fully analyzed in the important dailies and weeklies of the civilized world. The French Experts' plan had no external publication of that kind, but its details reached the press of the great countries.

Reports on the financial condition of Austria and Hungary, issued by the League of Nations and by the financial ministries of those countries, reports preliminary, tentative, monthly, final, are available in three or four languages. Probably so full, impartial, and objective a financial history of a country has never before appeared. Here in relatively small compass are the stories of the end of one cycle and the successful beginning of another.

The material for the revised fiscal science is at hand. The present volume does not purport to develop new theories, but merely to supply the first framework for those theories. It is an analysis of existing tendencies in taxation, with particular emphasis upon those which have developed since the war began, and in their relation to post-war economic life.

Permanence of high expenditure.—Taxation is a function of expenditure. Only the most thoughtless citizen, perhaps under a spell cast by an eloquent office-seeker, would assume that taxation is an end in itself or that it is a phenomenon which a politician in office may control at will. Revenue, of which taxes make up the greater part, is simply the result of a certain scale of expenditure in a country which, roughly speaking, pays as it goes and does not buy on credit. A discussion of the high level of post-war taxes is fruitless if it is not related to an analysis of high post-war expenditure.

The cause of the permanence of high taxes is, then, the permanence of large expenditures. National governments are still spending much more than they did in 1913, and there is small probability that they will retrench. Expenditure in all communities, large and small, tends to grow faster than the population, and tends to take a spurt in time of war on account of activities which cannot be relinquished in the subsequent peace.

Increase of state activities.—The tendency of expendi-

tures to increase was well described in Professor Adolph Wagner's "law of the increase of state activities":²

Comprehensive comparisons of different countries and different times show that, among progressive peoples, with which alone we are concerned, an increase regularly takes place in the activity of both the central and the local governments. This increase is both extensive and intensive: the central and local governments constantly undertake new functions, while they perform both old and new functions more efficiently and completely. In this way the economic needs of the people, to an increasing extent and in a more satisfactory fashion, are satisfied by the central and local governments. The clear proof of this is found in the statistics which show the increased needs of central governments and local political units.

Expenditure in the principal countries.—The following table shows the increase of expenditures of the principal countries during and after the World War. With the exception of Germany, some allowance should be made for the decreased purchasing power of the currency during the years immediately after the war. After 1924, however, this factor can be neglected in a rough survey of the changes from year to year. The table suggests that a minimum of post-war expenditure was reached about 1924 or 1925, and that after that date expenditure began to increase again in accordance with the tendency described by Professor Wagner.

The growth of expenditure in recent years has been due in large part to three factors: interest charges on debts contracted in the course of the war, the extension of state activities, and rising prices. In statements which are reduced to terms of 1913 dollars, the last factor disappears.

Debt charges are considerably more important than the extension of national functions in swelling the expenditures of the modern state. In giving his estimate of \$200,000,000,000 as the direct costs to the Governments

² A. Wagner, *Grundlegung der politischen Oekonomie*, Bk. VI, Ch. 3 (third edition, 1893).

GROWTH OF EXPENDITURES OF UNITED STATES AND
EUROPEAN COUNTRIES, 1914-1926

Fiscal Year	COUNTRY				
	United States (in Millions of Dollars)	Great Britain (in Millions of Pounds)	Italy (in Millions of Lire)	France (in Millions of Francs)	Germany (in Millions of Marks) ³
1914	735	197	2,688	10,065	
1915	761	560	5,395	20,889	9,600
1916	742	1,559	10,625	36,848	26,700
1917	2,086	2,198	17,595	44,661	28,800
1918	13,792	2,696	25,299	56,649	53,300
1919	18,952	2,579	32,452	54,213	45,500
1920	6,142	1,666	23,093	58,143	
1921	4,891	1,195	36,229 ⁴	52,023	11,266
1922	3,618	1,079	35,459	49,719	11,963
1923	3,648	812	21,832	42,635	9,965
1924	3,404	789	19,715	36,911	13,513
1925	2,931	796	19,887	33,990	6,708
1926	3,518	826	18,820	37,338	7,184

involved of the World War, Professor Bogart shows that popular loans net the greater part of the outlays, and describes the refinements of the borrowing process which the World War produced.⁵ In modern times the volume of outstanding debts reflects most directly war and preparation for war.

Post-war debt burdens.—The post-war debt burdens of the allied countries are very large. They stood as follows in the budget estimates for 1927:⁶

³ In current marks for 1914-1919, in gold marks for 1921-1924, in reichsmarks for 1925-1926.

⁴ Includes for first time losses from State purchases and sales of wheat and other foodstuffs.

⁵ E. L. Bogart, *War Costs and Their Financing* (New York, 1921), pp. 1, 8, 351 *et seq.*

⁶ League of Nations, *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), *passim*.

<i>Country</i>	<i>Debt Charges as Per Cent of Budget Expenditure</i>
Great Britain.....	47.5
France.....	39.7
Belgium.....	37.7
United States.....	37.5
Italy.....	29.1
.....	
Germany (reparations and debt).....	22.9
Austria (1926).....	12.9

According to this list the burdens of the allied countries appear high, not only in themselves, but also in contrast with the debt burdens of Germany and Austria. It should be remembered, however, that the process by which the central countries rid themselves of a large part of the internal debt, one of currency depreciation, was in effect extremely high taxation or confiscation of capital; so that a burden which is not reflected in the percentages given above was in fact borne by those countries.

ORDINARY RECEIPTS AND EXPENDITURES CHARGEABLE AGAINST
ORDINARY RECEIPTS, FISCAL YEARS, 1920 TO 1927.⁷

[Basis of daily Treasury statements, unrevised]

<i>Fiscal Year</i>	<i>Total Ordinary Receipts</i>	<i>Expenditures Chargeable Against Ordinary Receipts</i>	<i>Surplus</i>
1920	\$6,694,565,388	\$6,482,090,191	\$212,475,197
1921	5,624,932,960	5,538,209,189	86,723,771
1922	4,109,104,150	3,795,302,499	313,801,651
1923	4,007,135,480	3,697,478,020	309,657,460
1924	4,012,044,701	3,506,677,715	505,366,986
1925	3,780,148,684	3,529,643,446	250,505,238
1926	3,962,755,690	3,584,987,873	377,767,817
1927	4,129,394,441	3,493,584,519	635,809,922

⁷ Report of the Secretary of the Treasury for Fiscal Year ended June 30, 1927, p. 20.

Expenditures in the United States.—The table on page 9 shows the course of expenditures in the United States since the end of the World War, and indicates at the same time the high yield of taxation and the large government surpluses.

The table shows that from 1922 through 1927 the expenditures of the Federal Government were practically constant, in spite of constant pressure for economy. The unavoidable conclusion is that they are likely to remain at this level or to increase.

Functional distribution.—An analysis of the growth of expenditures in the United States according to functional distribution which was recently made by the Secretary of the Treasury offers an admirable opportunity for determining with precision the causes of increased expenditure in this country. The table presented in the Secretary's Annual Report for 1926 is shown on page 11.

Importance of public debt.—The table shows that in the United States it is not the ordinary civil functions of government which have weighed most heavily in producing the greatly increased Federal cost, but, first of all, the public debt, and secondly, military functions.

In commenting on the possibility of future reduction, Secretary of the Treasury Mellon stated that civil expenditures had been reduced by every possible means and that the limit had been reached, while military expenditures, which had undergone a reduction, had begun to *increase* in 1926. Their future, the Secretary pertinently remarked, "depends largely on the nature of our foreign relations and the attitude of the country towards preparedness, that is upon policy and not upon considerations of economy." With respect to the largest item of all, the public debt charges, the Secretary stated that "as long as there are enormous fixed debt charges approximating two-fifths of all expenditures each year, no large reduc-

FUNCTIONAL DISTRIBUTION OF PER CAPITA EXPENDITURES WHEN REDUCED TO 1924-1926 PRICE LEVEL
 [In dollars of 1924-1926 purchasing power]⁸

	1915	1917	1919	1921	1922	1923	1924	1925	1926
General government.....	0.65	0.62	1.07	1.12	0.99	0.97	0.96	0.91	0.88
Internal security.....	.34	.28	.32	.49	.42	.47	.45	.65	.64
Development and regulation.....	.76	.76	1.64	1.12	.97	.97	.95	.95	.95
Public domain, works and industries.....	1.71	1.42	23.51	8.78	1.86	3.18	2.00	2.56	.37
Local governments and Indians.....	.39	.37	.34	.41	.39	.38	.39	.47	.49
Foreign relations.....	.07	.07	.09	.08	.09	.13	.12	.13	.13
<i>Total ordinary civil functions</i>	3.92	3.52	26.97	12.00	4.72	6.10	4.87	5.67	5.46
Military functions.....	6.28	10.71	119.80	16.80	14.36	12.27	10.89	10.17	10.20
Public debt ⁹	.33	.32	6.29	13.34	18.79	15.41	18.34	14.24	14.79
Loans.....	.....	11.46	39.63	2.76	.15	.32 ⁹	.09	10	10
Trust funds.....	.20	.26	.25	.55	.65	.69	.78	1.57	1.91
Refunds, losses, etc.....	.22	.30	.69	.51	.83	1.46	1.43	1.65	1.85
Total	10.95	26.57	193.63	45.96	39.50	35.61	35.40	33.30	34.2

⁸ Report of the Secretary of the Treasury for Fiscal Year ended June 30, 1926, p. 32.

⁹ Credit.

¹⁰ Less than one-half cent.

tion in total expenditures is possible in this direction."

Expenditure in the future.—Ultimately, however, if the customary policy of the United States is followed, much of the public debt will be paid off and the debt charges will be reduced. There remains a tendency for expenditure to increase in ordinary times which the Secretary of the Treasury attributed to the following principal causes:

1. The rising level of general prices,
2. Increasing population,
3. The increasing cost of armaments and accumulation of expenses attributable to past wars,
4. The expanding sphere of governmental activity required by the increasing congestion of population and made possible by augmented national wealth, and
5. Rising standards in governmental activities and efficiency, a necessary concomitant to a rising general standard of living in a progressive country.

War costs to the United States.—The costs of the war up to June 30, 1927, the end of the fiscal year in the United States, were distinguished and analyzed by the Secretary of the Treasury in his annual report for 1927. The total cost to the United States up to that time was approximately \$49,000,000,000, or about twelve times the annual ordinary receipts of the national government. This total was reached after allowance was made for estimated normal expenditure under the War and Navy Departments on a peace basis, receipts on account of the sale of war supplies, and assets held on June 30, 1921, a large part of which were subsequently converted into cash and covered in the Treasury, and the remainder of which were estimated. Naturally some of the figures are approximations, as no cost records relating to the war were maintained.

The continuing costs amounted to about \$1,300,000,000 in 1927. They had decreased somewhat since 1925,

but the total is large. The most important source of expense is the war debt, the annual cost of which was decreasing at a rate of, roughly, \$40,000,000 to \$50,000,000 a year. In 1927 it was about \$800,000,000. The only other item of importance is the Veterans Bureau, the cost of which was about \$500,000,000 in 1927, and which had increased steadily in expense since 1922.

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Standard texts in public finance furnish the best introduction to a factual study of fiscal systems of the post-war period. The growth of expenditures is discussed ably in G. F. Shirras, *The Science of Public Finance* (London, 1924), H. L. Lutz, *Public Finance* (New York, 1924), and C. C. Plehn, *Introduction to Public Finance* (New York, 1896; fifth edition, 1926). For comparison the excellent pre-war text, C. F. Bastable, *Public Finance* (London, 1892; third edition, 1903), is scholarly and stimulating.

More generalized treatment of expenditure is given in H. W. Guest, *Public Expenditure* (New York, 1927), H. Dalton, *Principles of Public Finance* (London, 1923) and in a chapter in A. C. Pigou, *Public Finance* (London, 1928). War costs and the means of meeting them in the principal countries are analyzed in E. L. Bogart, *Direct and Indirect Costs of the Great World War* (New York, 1919), and the same author's *War Costs and their Financing* (New York, 1921).

The student will find the analysis of post-war fiscal reforms a task of some magnitude. The *Annual Reports of the Secretary of the Treasury* (Washington, D. C.) supplemented by an excellent small volume by the National Industrial Conference Board, *Cost of Government in the United States* (New York, 1926), furnish an account of the changes, perhaps too gradual to be called reforms, which have occurred in the United States. The *Financial Statements* of the British Treasury (London) supply in briefer form the information for Great Britain. The Dawes Report, known as the *Report of the First Committee of Experts* (Paris, 1924) and the subsequent *Reports of the Agent General for Reparation Payments* (Berlin) contain the history of German fiscal affairs since 1924. The *Monthly Reports of the League of Nations' Commissioner General for Austria* (Geneva, 1923 to 1926), and the *Monthly Reports of the League of Nations' Commissioner-General for Hungary* (Geneva, 1924 to 1926) furnish a complete account of the most thorough-going of the post-war fiscal reorganizations.

As secondary sources G. Peel, *The Financial Crisis in France* (London, 1925), H. G. Moulton and C. E. McGuire, *Germany's Capacity to Pay* (New York, 1923), and C. E. McGuire, *Italy's International Economic Position* (New York, 1926), are useful.

CHAPTER II

POST-WAR EXPENDITURES IN EUROPE

British budget requirements.—Great Britain has the highest per capita expenditure among the belligerent countries. The enlarged national debt, which required almost half of the revenue in 1926-27, is the principal cause of the unprecedented per capita taxation of the present. A secondary explanation is to be found in the expansion of the social services. The national debt is the cause of constant anxiety to the Exchequer, and the reason for the rise of such projects as that of the capital levy, which is discussed elsewhere in the present volume. The development of national insurance and the social services, on the other hand, is not uniformly regarded as undesirable. The National Debt Committee, known as the "Colwyn Committee" on account of the fact that Lord Colwyn acted as its chairman, reported in 1927 that even "if it were proved that the taxation required for this expenditure was damaging to production, it might still be possible to justify it on the grounds of general advantage. For many social objects wise collective expenditure is clearly more economic than expenditure left to the individual."¹

British debt charges.—The British debt charges in the post-war period were relatively almost as large as those

¹ Great Britain, *Report of the Committee on National Debt and Taxation*, Cmd. 2800 (London, 1927), p. 104.

of the United States, although in terms of absolute amounts they were considerably smaller. Debt interest, with the per cent of total expenditure which it formed, was shown to be as follows in a British Treasury statement (*Comparison of Expenditure, 1923 to 1928*) which was issued on April 24, 1928, the day of the announcement of the budget for the coming year:

	<i>Debt Interest</i> (Millions of Pounds)	<i>Per Cent of</i> <i>Expenditure</i>
1923	297	46
1924	302	45
1925	297	43
1926	302	46
1927	291	43
1928	290	47

The last figures represent a debt charge of approximately \$1,400,000,000 a year, as compared with \$1,900,000,000 in the United States in 1927, an expenditure which was 51 per cent of the total expenditure in the United States. The British debt charges were about \$32 per capita, as against about \$10 per capita for the United States.

Unimportance of external debt.—The external debt of the United Kingdom was receiving a disproportionate amount of attention during the post-war period on account of its political significance. In terms of figures it was not large. The committee on National Debt and Taxation showed that the actual interest charge on the external debt was about one-ninth of the total debt charges in 1925-26. The external debt consisted almost wholly of amounts payable to the United States. On account of the small size of these payments the burden of foreign transfers borne by Great Britain was not serious.

The internal debt, on the other hand, was high. The Colwyn Committee's figures were as follows:

<i>Year</i>	<i>Internal Debt Interest</i>	<i>Per Cent of Budget Receipts</i>
<i>(Millions of Pounds)</i>		
1913-14	17	10
.....	...	..
1919-20	284	22
1920-21	309	22
1921-22	286	27
1922-23	266	30
1923-24	270	34
1924-25	273	35
1925-26	254	36

Internal charges and the proportion which they formed of the total budget receipts are shown to have increased slightly from year to year after 1922-23. This was due in part to a relative decrease in expenditure for other purposes and in part to the national debt policy. The nominal amount of the debt reached a maximum in December, 1919, and after that time reductions were made. Income from various sources, including the sinking fund and budget surpluses, was applied to the reduction of the principal of the debt.

Changes in state services.—The war-time growth of state services, especially the social services, has proved to be a factor which cannot be eliminated in time of peace. It thus formed the second cause of the high level of post-war expenditures. Some British comparisons with 1914-15 are as follows:

	<i>—Estimates of Expenditure— (Millions of Pounds)</i>	
	1914-15	1928-29
Debt.....	17	304
National pensions and insurance.....	25	134
Local grants.....	37	101
Defence.....	74	99

Aside from the national debt, the greatest increase was shown by national pensions and insurance, charges for

which were multiplied more than 5 times in the war and post-war years. Defence showed only a moderate increase.

The item called "local grants," which represents aid from the national government to the local governments, was nearly three times as large in 1928-29 as in 1914-15. The increase is to be accounted for in large part by expenditure for the modern social services. The important objects of local grants are as follows:²

<i>Grant Services</i>	<i>—Estimates of Expenditure— (Thousands of Pounds)</i>	
	1914-15	1928-29
Education.....	16,614	46,827
Housing.....	....	12,143
Payments to local accounts.....	7,915	13,860
Police.....	100	5,848
Health services.....	522	3,947

Those items which represent the newer activities in the field of governmental social service are shown to have increased rapidly. The older services, protection and education, also had a share in the expansion.

Expenditure in France.—Even before the World War French expenditures were large in relation to the national income. During the war and in the succeeding years the amount spent by the national government increased enormously. In terms of paper francs, national expenditure in the peak year, 1920, was 12 times as large as in 1913, and in 1927 it was eight times as large. The most conspicuous increase was in the amount necessary to cover the annual debt charges, which required considerably more than one-half of the total in 1926 and 1927. The French political debt, external and internal, and the commercial debts to the United States and Great Britain, amounted to 513,901 million francs on March 31, 1926. Nearly three-fifths of this was internal debt. The debt

² Great Britain, *Financial Statement*, 1927-28.

services in 1927 required about 15 times as much as in 1913. Meanwhile the cost of the civil services had increased to six times their former dimensions, while defence was only four times as large.

Until 1926 the gap between total revenue and total expenditure was considerable. The accumulated deficits from 1919 to 1924 were covered by increasing the floating debt and by issuing short-term bonds maturing within ten years. In 1925 and 1926 the budget position became increasingly precarious on account of the necessity of meeting maturing bonds, an emergency in which the already unbalanced budget could give no help. The Government was obliged to apply to the Bank of France, with the result that public confidence was lost and the franc depreciated.

The committee of experts.—At the end of May, 1926, the Minister of Finance appointed a committee of 13 experts, eight of whom were bankers, and the other five business men and economists. The essentials of their report, which was issued in June, were adopted by the government. The series of measures advocated by the committee were as follows:³

The energetic compression of State expenditure; the immediate putting into force of sources of revenue with immediate and elastic yield; the restoration of the independence of the Bank of France by the cessation of recourse directly or indirectly to its advances for covering fresh expenditure;

The gradual reduction of the total advances by the Bank to the State;

The assurance of the good working of the Exchequer and its restoration to its normal function by relieving it of the burden of a large part of the floating debt;

An endeavor by voluntary consolidation means to convert into redeemable securities the national defense bonds and the short-term bonds;

³ Quoted in Great Britain, Department of Overseas Trade, *Report on the Economic and Industrial Conditions in France, 1925-26* (London, 1927), p. 21.

The realization within a brief period, with the aid of the Bank of France, of currency stabilization, which alone can render possible and of durable effect the measures just cited, retain, attract and lead to the return of capital, and prepare anew at an early date its free circulation;

For stabilization purposes the arrangement of loans in foreign currencies for as long periods as possible, and the obtaining of foreign credits;

The pursuit of an economic policy that will enable the crisis that will inevitably result from the return to sound currency to be mitigated and will enable the prosperity of the country to be reestablished.

Financial reform.—The recommendations of the experts were incorporated in the Finance Law of August, 1926, which aimed at four financial reforms, the balancing of the budget, the relief of the Treasury, the reduction of the floating debt, and the stabilization of the currency. For the extinction of the floating debt a special fund, the "autonomous fund for the redemption and management of national defence bonds and for the working of tobacco on an industrial basis" was established. With the receipts of the tobacco monopoly, the yield of the inheritance taxes, and the produce of a new supertax on the first transfer of buildings, material and goodwill, together with certain other sources earmarked for the sinking fund, it was believed that the annual expense of the national debt would be satisfactorily met. The official returns do not show the difference between actual receipts and budget estimates, but it is understood that the French budget difficulties arising from the large expenditure on account of the national debt were partially eliminated.

German expenditures.—Germany emerged from the financial reconstruction of 1924 with a smaller internal debt than those of the other countries which have been discussed, but with heavy charges for reparations and a considerable burden for war pensions. On account of the severity of the reconstruction through which German fiscal affairs passed, no budget difficulty comparable with

that of France appeared. Payments under the Dawes Plan were made regularly on the agreed dates and were duly acknowledged by the Agent General for Reparation Payments stationed in Berlin. The reparation payments form a larger per cent of the German budget than foreign debt payments of the allied countries have reached in the respective budgets.

The weight of the Dawes plan payments upon the budget was as follows in the first years:

<i>Year</i>	<i>Reparation Payments from Budget as Per Cent of Budget Expenditure</i>
1924-25	25.6
1925-26	20.4
1926-27	19.1
1927-28	21.8

These sums are large, but with the debt charge added they amount to only 27.0 per cent of the budget expenditure, while the total debt charges of France, Great Britain, Italy, Belgium and the United States are considerably larger. Germany's internal debt became small through the depreciation of the currency, and while some compensation was made to the holders of obligations in the former marks, the total is a relatively small budget charge. The loss meant a decrease in the resources of the German bond holders, however, and was in effect extremely high taxation or confiscation of capital.

Sources of reparations.—Under the provisions of the London agreement of August, 1924, reparation payments were fixed as follows:

- 1000 million marks in the first year;
- 1220 million marks in the second year;
- 1200 million marks in the third year;
- 1750 million marks in the fourth year;
- 2500 million marks in the fifth year, and upwards,

subject to an increase from the sixth year onwards, calculated according to a prosperity index based on changes in foreign trade, the budgets of the Reich, Prussia, Bavaria, and Saxony, railway transport of goods, consumption of sugar, tobacco, beer, alcohol, coal and lignite, and the number of the population.

The reparation payments were to be derived from five sources:

1. The proceeds of a foreign loan of 800 million marks, to be used in the first annuity year (September 1, 1924 to August 31, 1925).

2. Tax reparation bonds of the German railways, amounting to 11 billion Reichmarks, and bearing 6 per cent interest and amortization charges.

3. Industrial debentures of German industrial undertakings, amounting to 5 billion Reichmarks, and bearing 6 per cent interest and amortization charges.

4. A transport tax on passenger and goods transportation, of 250 million marks in the second annuity year and 290 million in the third annuity year and onwards, to be delivered by the German railways to the Reichsbank.

5. Payments from the budget.

The Schedule.—The table on page 22 shows the payments due.⁴

Budget contributions.—The payments from the budget were fixed at 250 million marks for the second year, 110 million for the third, 500 million for the fourth and 1250 million for the fifth year and onwards. The payment for the second year was made from the sale of preferred railway stock. As security for payments from the budget and as collateral security for the sale of the railway bonds and the industrial debentures, the yield of the

⁴ League of Nations, *Memorandum on Public Finance, 1922-26* (Geneva, 1927), p. 238.

REPARATION PAYMENTS DUE

[In Millions of Gold Marks]

	1924-25	1925-26	1926-27	1927-28	1928-29 and onward
Foreign loan.....	800				
Interest on railway bonds..	200	595	550	660	660
Amortization of railway bonds.....					
Interest on industrial de- bentures.....		125	250	300	300
Amortization of industrial debentures.....					
Transport tax.....		250	290	290	290
Budget.....		250	110	500	1250
Supplementary budget contribution.....			300		
<i>Total.....</i>	1000	1220	1500	1750	2500 ⁵

customs duties and the excise duties on alcohol, beer, tobacco and sugar was pledged and put under the control of a Commissioner.

Beginning from the third annuity year, the Commissioner was instructed to build up a reserve fund by withholding one-tenth instead of one-twelfth of the amount due until a fund amounting to 100 million marks, including interest, was withheld. This fund, the purpose of which was to meet a possible shortage in the monthly yield of the controlled revenues or a failure in the service of the railway bonds and industrial debentures, must be advantageously invested.

The plan provided for a supplementary payment if the yield of the pledged taxes amounted to more than 1000

⁵ Subject to increase from 1929-30 onwards, according to an index of prosperity.

million marks in the third year and 1250 million marks in the fourth year. As the actual yield of the pledged taxes was higher than the estimates, the Government came to an agreement with the Agent-General for Reparation Payments and undertook to pay in the third annuity year a further contribution of 300 million marks.

Interallied debt payments.—Repayments of the interest and principal of war debts incurred among the allied countries form only a small proportion of the budget of expenditures of those countries. The subject of the suitability and justice of repaying foreign loans made in the course of the World War arose with respect to the largest creditor, the United States, soon after the end of the war, and subsequently had extensive consideration. The figures for the payments show, however, that up to 1930, at least, the payments were to be so small that the subject was a political rather than a fiscal one.

The total principal amount of foreign obligations to the United States was more than \$10,000,000,000. These obligations were acquired by the United States in four ways: under Liberty Bond acts which establish credits in the United States to enable foreign governments to meet commitments here; under an act of 1918 providing for the selling of surplus war supplies; through the use of a revolving fund for the purchase of foodstuffs; and under an act passed in 1920 which enabled the United States Grain Corporation to sell flour for famine areas.

Debts owed the United States.—Net indebtedness, including loans and war and relief supplies, of the various countries to the United States on April 1, 1927, stood as shown in table on page 24.

Great Britain, France and Italy were therefore the principal debtors of the United States in the international accounts arising from the World War. Together they owed the United States about nine billion dollars, or about

	<i>Millions of Dollars</i>		<i>Millions of Dollars</i>
Great Britain.....	4050	Greece.....	15
France.....	3341	Estonia.....	14
Italy.....	1648	Armenia.....	12
Belgium.....	377	Finland.....	8
Russia.....	193	Latvia.....	5
Poland.....	160	Lithuania.....	5
Czechoslovakia.....	90	Hungary.....	2
Yugoslavia.....	51	Nicaragua.....	.03
Rumania.....	36	Liberia.....	.03
Austria.....	24	<i>Total.....</i>	<i>10,056</i>

nine-tenths of the total amount owed by the nineteen countries involved at this date.

Debt settlements.—Nearly all of the debts to the United States were funded by the end of 1927. The Secretary of the Treasury stated in his annual report for that year that more than 97 per cent of the total principal amount of obligations held had been provided for by settlements arranged through the World War Foreign Debt Commission created by Congress on February 9, 1922. This included the debt owed by France, however, the ratification of which was withheld by the French Parliament.

As a rule the debts were funded on a 62-year plan which included the gradual repayment of principal. It is maintained by the Secretary of the Treasury, taking the present value of the debts on a 5 per cent basis, that the cash values cancelled in the settlements with Great Britain, Italy, Belgium and that offered France amount to \$5,-489,000,000, about one-half of the sum represented by the principal and interest of the original debts. France is to pay only 50 per cent of the principal and interest, Belgium 54 per cent, Italy 26 per cent, and Great Britain 82 per cent. The debts were arranged according to the principle of "capacity to pay," in so far as it was possible

to determine that capacity. The principle has been repeatedly attacked by critics of the policy.

Minor place of debt payments.—The financial importance of foreign debt payments to the United States Treasury has been slight. The proceeds from foreign obligations, on account of both principal and interest, formed the following percentages of ordinary budget receipts in the respective years:

<i>Proceeds from Foreign Obligations, Year</i>	<i>Per Cent of Ordinary Receipts</i>	<i>Proceeds from Foreign Obligations, Year</i>	<i>Per Cent of Ordinary Receipts</i>
1920	1	1924	5
1921	2	1925	5
1922	2	1926	5
1923	6	1927	5

The relative importance of the debt payments in the budgets of other countries is no greater than in the United States. The British payments of principal and interest for 1925-26 were less than 5 per cent of total budget expenditure for that year. The Italian payments, which were far smaller, amount to less than 1 per cent of the present expenditures until after 1930, when they grow somewhat larger. The Belgian payments are not far from 1 per cent of the existing budget until 1930. The French payments were scheduled to begin with a small amount (\$10,000,000) on June 15, 1927.

In view of the small fraction which foreign debt payments form of the budgets of the debtor countries, a fraction which is negligible in comparison with that for the internal debt or for military items, and the minor part which they have as yet in the budget receipts of the United States, the comprehension of the citizens of the various countries might be more easily obtained if these facts were made clear and interallied debt discussions were kept

upon another plane, that of internal and external political considerations. This has not been possible, however. The size of the surplus to be obtained by Great Britain after the payments plans and German reparation deliveries are in full operation has been the subject of an interchange of notes between Great Britain and the United States, on account of the early British declaration that that country would not demand payment of her debtors in excess of the amounts scheduled to be paid to the United States. These actual or hypothetical surpluses are also small in relation to the total British budget. The Annual Reports of the Secretary of the Treasury contain full accounts of the exchanges of notes among the various countries involved in the debt question, as well as the debt agreements themselves. This question, together with the reparation demands, was the most serious problem of adjustment in the fiscal field left by the World War.

The fiscal problem of today.—The permanence of high expenditure and its causes are described as follows in the introduction to the survey of public finance published by the League of Nations in 1927:⁶

. . . During the last three years . . . only very slight reduction or no reduction of expenditure has taken place, there being, on the contrary, an increase in some countries. But in the previous period of three years from 1920 to 1923, there was a marked reduction. . . .

The service of the public debts,—foreign and domestic,—absorbs as much as 40 per cent of the total state expenditure in some countries. These dead-weight commitments are the prime cause of heavy taxation, but other war liabilities, such as pensions to disabled soldiers, etc., though terminable in their nature, will for many years to come add to the fiscal burdens. The fact that a large proportion of the budget charges are fixed, limits the possibility of economies to the votes for the civil and fighting services, the only items which can be reduced.

This statement is a clear exposition of the fact that since the expanded governmental functions, apparently

⁶ League of Nations, *Memorandum on Public Finance, 1922-26* (Geneva, 1927), pp. 12, 20.

publicly approved and endorsed, are permanent, the only opportunity for economy lies almost exclusively in disarmament programs. As long as such programs are as difficult of accomplishment as at present the probability of sweeping economies in the great industrial countries is slight.

BIBLIOGRAPHICAL NOTE

The texts and special works suggested in the bibliographical note appended to Chapter I are almost without exception valuable for furnishing material on European expenditures as they are outlined in this chapter. They can profitably be supplemented by J. P. Young, *European Currency and Finance* (Washington, 1925, 2 vols.), League of Nations, *Memorandum on Public Finance*, 1922 (Geneva, 1923), League of Nations, *Memorandum on Public Finance*, 1922-1926 (Geneva, 1927), the British *Report of the Committee on National Debt and Taxation* (London, 1927), and the United States Department of Commerce, *Budgets of European Countries* (Washington, 1926). The British Department of Overseas Trade, *Report on the Economic and Industrial Conditions in France*, 1925-26 (London, 1927), and *Report on Economic and Financial Conditions in Germany, to July, 1927* (London, 1927) are invaluable in the careful selection of material and its presentation from an economic viewpoint. These reports appear with considerable regularity, approximately once a year, so that earlier numbers for France and Germany and the reports for other European countries are available.

CHAPTER III

CHANGES IN TAXATION

Nature of tax changes.—The changes in taxation which followed the growth of public expenditure after 1914 have involved modifications in character and increases in volume. The latter, for solvent countries at least, was inevitable. The extension of public activities, a phenomenon which always shows a more rapid rate than the growth of the population, must be paid for by a corresponding increase in per capita taxation.

The change in the character of taxation has involved three general factors: an increased use of direct taxes, an unprecedented development of progression, and the introduction and continued use of general sales taxes. The reasons for the innovations and modifications in a given country usually seem to lie in the fiscal traditions and material resources of that country. The effect of a new tax upon economic and social life, on the other hand, may show the same characteristics in all countries in which it appears.

Direct and indirect taxation.—The variations in the degree of reliance upon direct taxation in the principal countries are shown in table on page 29.

The table shows that the principal Anglo-Saxon countries have come to rely upon direct taxation for considerably more than one-half of the tax revenue, while the Latin countries use direct taxation for only about one-

REVENUE FROM DIRECT AND INDIRECT TAXES ¹

1926-1927

Country	Revenue from Taxation	
	Per Cent, Direct	Per Cent, Indirect
United States.....	63.2	36.8
Great Britain.....	57.1	42.9
Germany.....	42.5	57.5
Italy.....	33.8	66.2
France.....	30.7	69.3

third of the revenue, and Germany occupies a middle ground. These modern tendencies are in keeping with the general fiscal traditions of the respective countries.

The United States' use of direct taxation is wholly a modern development, reflecting the improved fiscal education and responsibility of the citizens. In 1913, when customs and internal revenue duties made up the tax revenue, direct taxes were practically non-existent as sources of federal revenues. The income tax and the estate tax were to come later. Great Britain, on the other hand, with her uninterrupted use of income taxes since 1842 and her relatively heavy reliance upon inheritances taxes, used direct taxation for the major part of her revenue even before the World War. During the war it grew still larger, but at the time of writing it is shrinking to its pre-war proportions. The course through the years may be indicated as follows:

*Per Cent of British Tax Revenue
from Direct Taxes*

1913-14	53.9
1919-20	71.7
1926-27	57.1

¹ Computed from figures in the League of Nations' *Memorandum on Public Finance, 1922-26* (Geneva, 1927), pp. 13, 14.

Burden of direct taxation.—The conclusion of the British Committee on Debt and Taxation as to the burden of direct taxation in the country which has felt it most severely is as follows:²

The burden of direct taxation, while we do not wish to belittle it, is less crushing than is frequently represented. It does not, with trivial exceptions, enter directly into prices, and its indirect effects are not such as substantially to affect the general price level. It has a materially adverse effect on savings, but this does not hold good, so far as the receipts are applied to payments on account of the internal debt. Again, it has widely diffused psychological effects, and has been responsible for a good deal of discouragement, while trade has been suffering from long-drawn-out depression due to wider causes; on the other hand, some of the psychological effects have been actually beneficial. In our opinion the present taxation—even in conjunction with the loss of material wealth due to war expenditure, which lies behind the National Debt—is not one of the main causes of industrial difficulty.

... So far as taxation is concerned, we think that, if general conditions improve and times become more prosperous, the burden will be carried with comparative ease. We base our conclusions, not on preconceptions, but on the long analysis contained in the foregoing part of our Report, in the light of which they must stand examination. We may perhaps remark that the view which we take is more optimistic than the view which attributes to taxation a very large responsibility for the present industrial position; for, while there is little prospect of any great lightening of the tax burden in the early future, there is legitimate hope that in many respects more general conditions, both at home and abroad, may improve.

Although the emphasis upon direct taxation is shown by the table given above to have reached its maximum in the course of the World War, it is not likely to be substantially diminished in Great Britain or in the United States. Direct taxation, as Professor Seligman has pointed out, "generally forms the last step in the historical development of public revenue. At first regarded entirely as an extraordinary means of support, it gradually assumed the character of an ordinary form of revenue."³ No

² *Report of the Committee on National Debt and Taxation*, Cmd. 2800, (London, 1927), p. 245.

³ E. R. A. Seligman, *Essays in Taxation* (9th ed. New York, 1921), p. 6.

more striking illustration of this tendency can be found than in the United States, where direct taxes advanced from one-tenth of the revenue to one-half, in five years of the war and post-war period. The federal income tax, at last made fully constitutional by the Sixteenth Amendment,⁴ was almost entirely responsible for the change. The transition was amazingly swift, and the cause of the change has been partly eliminated. Nevertheless a return to the former proportions of direct and indirect taxation is unthinkable.

Difficulties of definition.—The distinction between “direct” and “indirect” taxes is becoming increasingly difficult. It was stated by John Stuart Mill in the familiar terms: “A direct tax is one, which is demanded from the very persons who, it is intended or desired, should pay it. Indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another.”⁵

The intention of the legislator has ceased to be a sufficient reason for the distinction between direct and indirect taxes. The modern tendency is to make a distinction between “personal” and “impersonal” taxes. Discussion of the proper terminology has been exhaustive. It may perhaps be suggested by the distinction between *impersonal taxes on particular types of income* and *personal taxes on entire income* found in the collective agreement signed at Rome, April 6, 1922, between Austria, Hungary, Italy, Poland, Rumania and Yugoslavia.⁶ In a convention between Italy and Germany signed in 1925 a distinction is

⁴ “The Congress shall have power to lay and collect taxes on incomes from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration.” Article XVI of the amendments to the Constitution, dated February 25, 1913.

⁵ J. S. Mill, *Principles of Political Economy* (Ashley ed., London, 1909), p. 823.

⁶ M. B. Carroll, *Double Taxation Relief* (U. S. Department of Commerce, Washington, D. C., 1928), p. 3.

made between *direct impersonal taxes* and *direct personal taxes*. The former are levied on objects belonging economically to the territory of a state, and the latter on objects belonging to the taxpayer and to his nationality, domicile, or place of residence. By such means the necessary definitions are being rapidly developed in the post-war years.

In discussing the incidence of post-war taxes it is unfortunate that the classification into direct and indirect taxes is still made in the accounts of several governments and must therefore be used. As Professor Seligman has pointed out, the old-time classification has lost its former usefulness and is now without scientific foundation:⁷

In former times, when the mass of indirect taxes rested upon the poorer classes, the distinction corresponded roughly to the contrast between wealth and poverty, and the abolition of indirect taxes accordingly became a leading demand of social reformers. In modern times where the so-called indirect taxes have largely been removed from the necessities of life, and imposed upon luxuries or articles of harmful consumption, the contrast has lost its point. Indirect taxes are no longer necessarily taxes upon the poor.

But in the second place, the criterion of distinction has been abandoned by modern science. In direct taxes, the taxpayer is supposed to be the taxbearer; in indirect taxes, one man pays the tax and another is supposed ultimately to bear the burden. Even a superficial acquaintance, however, with the newer theories of the incidence of taxation discloses the fact that many so-called direct taxes are shifted and many so-called indirect taxes may be borne by the person who originally pays the tax.

Direct taxation and income.—In analyzing the extent to which the British subject must yield up his income to his government the Colwyn Committee allocated direct and indirect taxes to the different levels of income. The contribution of a married taxpayer with three children under sixteen is given by the Debt Committee in the table on page 33.

The table shows at the same time the extremely regres-

⁷ E. R. A. Seligman, *Essays in Taxation* (New York, 1921), pp. 690, 691.

CONTRIBUTION OF INCOME TO TAXATION ⁸

<i>Income</i> 1925-1926 (in Pounds)	<i>Percentage of Income Taken by Taxation Where Income Is Wholly Earned</i>		
	<i>Direct Taxation</i>	<i>Indirect Taxation</i>	<i>Total</i>
100	.....	11.9	11.9
150	.....	11.6	11.6
200	.....	10.2	10.2
500	2.0	4.2	6.2
1,000	8.1	2.9	11.0
2,000	13.2	2.0	15.2
5,000	21.9	1.3	23.2
10,000	30.0	1.2	31.2
20,000	36.9	0.6	37.5
50,000	44.2	0.2	44.4

sive character of indirect taxation as it exists in the modern state. The poorer people in post-war Britain give more than one-tenth of their incomes to the national exchequer, and give it entirely in the form of indirect taxation. The moderately prosperous, those who receive from £1000 to £2000 (\$5000 to \$10,000) give up a little more than one-fiftieth of their incomes in indirect taxation, while the very rich give only a small fraction of 1 per cent.

The generally regressive effect of indirect taxation is a matter of common knowledge, but the steepness of the curve was not recognized before the Colwyn Committee published its report. It is often assumed that, since the indirect taxes which are most commonly used in modern countries are levied upon semi-luxuries of wide general consumption, such as beverages and tobacco products, the regressive effect works little harm to the standard of living of the general public. The British figures indicate

⁸ Report of the Committee on National Debt and Taxation, (Cmd. 2800), 1927, pp. 94-95.

that some sacrifice of necessities may be made. The greater part of the receipts from indirect taxes come from beer and other beverages, and it is scarcely possible that the sacrifice of a tenth of the income for the payment of taxes on such commodities does not cut down expenditure for desirable articles of household and personal use.

The case for indirect taxation.—The case for retaining indirect taxation in modern budgets has been stated by Sir Josiah Stamp,⁹ who believes that while indirect taxation alone would be bad, this group of taxes in a minor position in the budget, carefully watched, can be made to conform roughly to the principle of ability over an area which cannot be properly reached by direct taxation. It is argued that direct taxation of the poorer classes must be in frequent and varying doses if it is to conform to their fluctuating ability, and that such taxes would be difficult to collect. Sir Josiah Stamp maintains that wages nevertheless contain a taxable element, which can and probably should be reached through careful taxation of commodities.

An opposite point of view is given by J. A. Hobson, who came to the conclusion, on analyzing taxes as they existed in the post-war industrial state, that all taxation should be laid upon surplus, since "we find in . . . economic surpluses an absolute ability to pay."¹⁰ In developing this argument he condemned all taxes on commodities and other indirect taxation as vexatious and costly, injurious alike in their assessment and collection, their shifting and their incidence. A reformed income tax should remain the chief instrument for the collection of revenue, according to this writer.

Use of progression.—The use of steeply progressive

⁹ J. Stamp, *Principles of Taxation* (London, 1921), p. 71.

¹⁰ J. A. Hobson, *Taxation in the New State* (New York, 1920), pp. 233 et seq.

scales is distinctly a development which was produced by the fiscal emergencies of the World War. Before 1914 the device was looked upon as questionable, and the total nominal rates of 8 per cent in force in Great Britain, 7 per cent in the United States under the new tax law made possible by the Constitutional Amendment of 1913, and 8 per cent in Germany under the new imperial income tax law of 1913, represented the maxima which public opinion would support. No one guessed that the maximum rates in the United States were to reach 77 per cent within a few years, and that the tax at those rates was to be collected with little friction or evasion and with enormous financial success.

The sentiment in support of even moderate progression had developed slowly. In 1861 John Stuart Mill spoke of a graduated income tax as "graduated robbery," and Newmarch said that graduation was "confiscation, punishing prudence and virtue, taxing a man for being good to himself and doing good to others."¹¹ In 1910 graduation was applied to the British income tax. That event perhaps marks the date when the justice of the notion that the ability principle may require progression became generally accepted.

Professor Seligman quotes the opinion of the income tax held by Adams of Pennsylvania in 1894:¹²

An income tax! A tax so odious that no administration ever dared impose it except in time of war; and you will find that the people will not tolerate it in time of peace. It is unutterably distasteful both in its moral and material aspects. It does not belong to a free country. It is class legislation. Do you wish to put a tax upon thrift and impose a penalty upon success? Do you desire to offer a reward to dishonesty and encourage perjury? The imposition of the tax will corrupt the people. It will bring in its train the spy and the informer. It will

¹¹ Quoted in J. C. Stamp, *Principles of Taxation* (London, 1920), pp. 38-9.

¹² E. R. A. Seligman, *The Income Tax*, Rev. ed. (New York, 1914), pp. 500-501.

necessitate a swarm of officials with inquisitorial powers. It is a direct step toward centralization, of which our Democratic friends profess such horror. It is expensive in its collection and cannot be fairly gathered; and finally, it is contrary to the traditions and principles of republican government.

Just after the end of the World War Sir Josiah Stamp described the change as follows: ¹³

Progressive taxation of income is now wellnigh universal, and it is difficult to realize that only two decades ago it was still looked upon askance by all but advanced thinkers in this country. . . . It was not until the marginal theory was thoroughly worked out on its psychological side that progressive taxation really obtained a secure basis in principle. It seems to us now a bare truism to say that taxation is a sacrifice or "hurt," and that to take away a shilling from the 10,000th £ is not so hurtful as to take a shilling from the 100th £. The principle is based upon the diminishing utility of money or wealth as a whole to its possessor.

Introduction of sales taxes.—The introduction and continued use of general sales taxes is one of the most conspicuous fiscal changes produced by the World War. When it is remembered that these taxes, non-existent in 1914, have become in certain countries, notably in France, the prime source of revenue and show almost no signs of decline, the qualitative and quantitative nature of the change is apparent. Although they fall in the general group of "indirect taxes" in the conventional classification, they have not been powerful enough to alter the general shift in the direction of heavier reliance upon the direct tax group.

The sales taxes have proved useful because they can be made to yield enormous sums even when they are imposed at a relatively low rate, such as 1 or 2 per cent. In any of the great modern commercial countries the total volume of retail sales, in good years and bad, is so large that it can be depended upon, if desired, to furnish tax receipts up to a fifth of the total necessary revenue. After the

¹³ J. Stamp, *The Principles of Taxation* (London, 1921), pp. 38, 40.

first two or three years of its life the administrative difficulties are apparently smoothed out and disappear. Unquestionably the tax is a consumers' tax, operating to raise the cost of living for the classes for which such increases are most harmful, but such considerations have not seemed to interfere with its financial success or even with its popularity.

Bastable's prophecy.—Writing early in the twentieth century, Bastable made an able prophecy concerning the future of the then existing types of taxation. After classifying taxes in three groups, income taxes, commodity taxes, and others, he said that these three types would probably persist and foretold a greater use of direct taxation, especially income and inheritance taxes. The following paragraph might have been written with the requirements of 1914-1928 in mind:¹⁴

A further advantage of this combination should be noticed—its elasticity. In modern finance it is desirable that receipts shall be capable of easy adjustment to expenditure without inflicting undue inconvenience on the contributors. The employment of different forms of taxation tends to realize this object. The steady growth of the receipts from commodities in times of prosperity, the definite yield of direct taxes, and the power of altering the rate of the income tax, taken together, provide the conditions for securing such growth or contraction of receipts as may be thought most desirable.

Income rates have been altered and raised close to the confiscation point since the analysis given above was written, and the excises and new sales or turnover taxes have illustrated the "steady growth of the receipts from commodities in times of prosperity." That advantages, and, better, that necessities of a tax system varied in the manner described, so that the maximum of elasticity may be obtained, have been fully demonstrated.

Adam Smith's rules.—Writing in the *Wealth of Nations* in 1776, Adam Smith formulated rules of tax-

¹⁴ C. F. Bastable, *Public Finance*, 3rd ed. (London, 1903), p. 359.

ation which have needed surprisingly slight modification in the last century and a half. The rules were as follows: ¹⁵

1. The subjects of every state ought to contribute towards the support of the government, as nearly as possible, *in proportion to their respective abilities*; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. . . .

2. The tax which every individual is bound to pay, *ought to be certain* and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. . . .

3. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be *convenient for the contributor* to pay it. . . .

4. Every tax ought to be so contrived, as both to take out and to keep out of the pockets of the people *as little as possible, over and above what it brings into the public treasury of the state*. . . .

These four maxims, known as the "canons" of "ability," "certainty," "convenience," and "economy," have become familiar to generations of readers, but the fact that they are becoming more strictly observed as the years pass, especially since the financial emergencies of recent years appeared, is not always clear.

The socio-political theory.—An emphasis upon aims which are other than fiscal appeared in the theories of the German economist, Adolph Wagner, and is reflected in the position of many later writers. Wagner maintained that in view of the extensive organization of modern industry with its well-defined classes and its unequal distribution of wealth, the state's fiscal system should be so shaped as to promote social justice. The contention was stated as follows: ¹⁶

. . . Our science has developed two demands. In the first place, the state should so order its expenditures, tax system, and loans as to remove certain economic and social evils which have attended them in the past. And in the second place, the state, by adopting appropriate policies, should remedy evils which are not due to its previous

¹⁵ A. Smith, *Wealth of Nations*, reprinted, (London, 1909), Book V, Ch. II, Part II. (Italics the present writer's.)

¹⁶ A. Wagner, *Finanzwissenschaft* (1899), vol. I, §27.

action in financial or other matters. . . . Taxation, in addition to serving the purely financial purpose of providing sufficient revenue, should be employed for the purpose of bringing about a different distribution of wealth from that which would result from the working of free competition upon the basis of the present social order.

In working out the implications of this theory Wagner criticized severely the existing criteria, which he formulated as follows:

1. Universality, or the duty of all citizens to pay taxes. If this term is interpreted literally, every citizen is required to pay taxes whether his income is high or low, whether it is derived from property or personal effort, and there can be no exemption for "minimum of subsistence."

2. Equality, or taxation in proportion to income. If this is strictly followed, every one pays taxes proportionate to his income; there is no progressive taxation, and there is equal taxation of funded and unfunded incomes.

The restatement made by Wagner in terms of the socio-political theory was as follows:

1. Universality is not interpreted literally, but permits the exemption of persons with small incomes, especially incomes derived from labor, and implies the exemption of a minimum of subsistence.

2. Equality means taxation in so far as possible in proportion to a person's ability to contribute, an ability which increases more rapidly than the absolute amount of a person's income or property increases. This requires progressive taxation and heavier taxation of funded incomes than of incomes derived from labor. Taxation of inheritances can be justified only upon the socio-political theory.

Professor Seligman's criticism.—Professor Seligman criticized Wagner's theory on the ground that the possibility of social reform lies in the general attitude of the

legislator in social and industrial matters rather than in tax reform. Professor Seligman continued:¹⁷

The desirable social reforms consist in extending the benefits of governmental activity to the poor and needy, and in enabling even the lowest classes to participate, as far as possible, in the advantages of progressive civilization. . . . In all events the socio-political theory is untenable in so far as it implies a conscious effort on the part of the state to levy higher taxes on the rich in order to reduce them to the level of the poor.

Post-war theory.—In the post-war period taxation has been largely opportunistic. It has been necessary to take the money where it is found, and to leave theoretical considerations to be worked out at greater leisure. On the whole, in spite of the haste in which many of the measures now in force were passed, the ability principle has made great strides. The steeply graduated scales used for the income tax, and the attempts in several countries to adjust the graduated scales to a smooth curve, are signs of the times. There seems to be little approval, tacit or spoken, of Wagner's contention that inheritance taxes are social taxes only. Legislatures have apparently accepted them as taxes which conform to the canon of ability, even under crudely devised scales. On the other hand, the differences in the taxation of funded and unfunded income have come about on account of social rather than of fiscal considerations. Post-war rates and schemes of taxation have therefore, a certain blurred relation to social justice, and although legal opinion and court decisions in the United States are divided as to the desirability of using taxes as social measures, the tendency on the whole seems to be slightly in that direction.

A modern statement of justice in taxation has been given by Professor A. C. Pigou, who has converted the ability theory into a sacrifice theory, stated as follows:¹⁸

¹⁷ E. R. A. Seligman, *Progressive Taxation* (Baltimore, 1894), pp. 69-70.

¹⁸ A. C. Pigou, *A Study in Public Finance* (London, 1928) pp. 59-60.

In my view there can be no question that . . . least aggregate sacrifice is an ultimate principle of taxation. . . . Apart from the possible effects of the action of one government upon the subjects of other governments, which for the present I ignore, there is general agreement that all government action should be regulated with a view to promoting, in the highest possible degree, the welfare of its citizens. . . . The claim that *equal sacrifice* is an ultimate principle of taxation is more controversial.

Such a view is apparently consistent with modern developments in progressive income taxation, in so far as the scales and exemptions are skillfully devised to produce a minimum of aggregate sacrifice.

BIBLIOGRAPHICAL NOTE

As a background for the factual study of taxation in the modern state such standard texts as those suggested in the bibliographical note appended to Chapter I are recommended: G. F. Shirras, *The Science of Public Finance* (London, 1924), H. L. Lutz, *Public Finance* (New York, 1924) and C. C. Plehn, *Introduction to Public Finance* (New York, 1896; fifth edition, 1926).

The clearest statement of the general and theoretical issues of post-war taxation is found in J. Stamp, *The Fundamental Principles of Taxation* (London, 1921). J. A. Hobson, *Taxation in the New State* (New York, 1920) and A. C. Pigou, *Public Finance* (London, 1928) are stimulating in their treatment of controversial issues. Another type of analysis of the incidence and effects of taxation is given in the small volume by H. Dalton, *Principles of Public Finance* (London, 1923). E. R. A. Seligman, *Essays in Taxation* (New York, 1895, ninth edition, 1921), is a penetrating study of several types and tendencies in modern taxation. The only good source book in the field, C. J. Bullock, *Selected Readings in Public Finance* (Boston, 1906; second edition, 1920) facilitates a study of the evolution of views of justice in taxation.

CHAPTER IV

TAXATION IN THE PRINCIPAL COUNTRIES

Growth of per capita taxation.—It was not until the war-time emergencies were past and the belligerent countries gave up the payment for supplies through borrowing and fresh issues of paper currency that taxation receipts again began to keep step with expenditure. As more and more earnest efforts were made to balance the post-war budgets, an end which was attained in all of the principal countries concerned within eight years after the end of the war, per capita taxation grew closer to per capita expenditure. Except for the fact that revenue from state enterprises and other miscellaneous sources must be ignored, per capita taxation may be used as a rough index of the financial burden carried by the average citizen in behalf of his country.

Per capita taxation, taking into account national taxes only, stood approximately as follows in 1927:

Great Britain.....	\$80
Germany.....	36
United States.....	30
France.....	26
Italy.....	20

Judged by this crude test, the individual in Great Britain was far more heavily taxed than the individual in any other country. His taxes were from three to four times those of the Frenchman, the Italian, or the American. While the American might point to his state and

local taxes as an additional and larger burden, the Englishman could take his turn in showing a burden of local rates equivalent to national taxation, a claim which was in fact so forcefully advanced that the budget for 1928-29 contained a provision for relief from local taxation to be given by the national exchequer.

The differences among the burdens of the other four countries were not large. Italy, the poorest, showed the smallest per capita burden, and Germany, which was making Dawes Plan payments and expanding industrially at the same time, showed the largest except for Great Britain.

Percentage burdens.—Differences in wealth and in standards and costs of living make comparisons of per capita taxation imperfect guides to relative burdens. The following summary of percentage burdens of taxation, derived from the ratio of all taxation, national and local, to estimated national income, is a better indication of the post-war load.

PERCENTAGE BURDEN OF TAXATION ¹

<i>Country</i>	<i>Taxation as Per Cent of National Income</i>	
	1913-14	1924-25
United States.....	6.6	10.5
Great Britain.....	11.4	22.0
France.....	14.0	18.5
Italy.....	.....	19.2
Germany.....	10.6	.....

Great Britain is shown to have considerably the heaviest post-war load, and to have undergone an increase of

¹ Figures are summarized from those given in the League of Nations' *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), p. 17.

nearly 100 per cent since 1914 in the figure which represents the true burden of taxation. That country has probably reached the maximum which could be taken by national, provincial and local taxing authorities. It is scarcely possible that under present conditions more than a fifth of total income should go in public treasuries without demanding considerable sacrifices of the poor and moderately comfortable. As long as indirect taxation, or the taxation of commodities in general use, is relied upon for one-half or nearly one-half of the total tax receipts, such sacrifices are indisputably required. Figures given elsewhere, from an official British report, bear out the contention that even in that country of progressive income taxes and death duties, the incidence of taxation upon the poor is considerable.

The table shows also the relatively low tax burden in the United States, in comparison with any other of the important belligerent countries. Taken as a whole, the percentages for 1924-25 may be said to set forth the extent of tax payments in the great modern states and to illustrate the divergencies of practice among those states.

American tax burdens.—Although taxes in the United States are small in proportion to the country's enormous national income, and so form a burden for the average citizen which is only about one-half as large as the burden borne by the corresponding European, they are large in terms of dollars. The National Industrial Conference Board has shown that the per capita burden of federal, state and local taxes combined in 1926 was about \$70.² Reductions have not been possible in state or local taxation, although they have been achieved in some measure by the federal government, and the total taxes paid have been rising steadily since 1922. In 1926 the sum of the three groups of taxes was approximately the same as that of 1921.

² National Industrial Conference Board, *Chart No. 159* (June, 1927).

In comparison with British taxes alone, the American burden in terms of dollars seems light. In 1924 the total American taxes, national, state and local, were less than the British taxes imposed by the national government alone. British local rates were said to be at least as much again. The average American's income is so much larger that his taxes are not severe in comparison with the British taxes.

The absorption of an increasing part of the tax payments by the states and the localities, with the relative decline in national taxes, is the striking characteristic of the recent changes in the United States. National taxation has never regained the high point of 1921, while state and local taxes have been mounting steadily throughout the post-war period. The declining importance of national taxes since 1919 is shown by the following figures:³

<i>Year</i>	<i>Federal Taxes as Per Cent of Total</i>	<i>Year</i>	<i>Federal Taxes as Per Cent of Total</i>
1890	42.7	1921	53.0
1903	37.7	1922	40.3
1913	30.4	1923	41.5
1919	63.1	1924	39.1

This analysis by years shows that the relation of federal taxation to total taxation in 1922, 1923 and 1924 had become about what it was in 1890; that is, federal taxation had decreased relatively until it formed only about two-fifths of total taxation. Apparently the expressed fears of certain American officials and publicists that the use of federal taxation had limited the power of the states and of the localities to obtain adequate and proportionate revenue were unfounded. The return to the status of 1890, proportionately at least, was a return to a relationship under which the federal government was understood to have relatively minor functions.

³ National Industrial Conference Board, *The Cost of Government* (New York, 1926), p. 41.

Taxes in relation to income.—The change in the fraction of national income which is required by all the taxes, federal, state and local, has been worked out as follows by the National Industrial Conference Board:⁴

<i>Year</i>	<i>All Taxes as Per Cent of National Income</i>	<i>Year</i>	<i>All Taxes as Per cent of National Income</i>
1890	7.2	1921	15.9
1903	6.7	1922	12.2
1913	6.4	1924	11.1
1919	10.9	1926	10.8

These figures, which vary only slightly from those in the League of Nations' analyses which were given above, show that a considerably larger fraction of income is spent in taxes in the post-war years than in the pre-war years. While the fraction for the United States is not large in comparison with that for any other modern industrial country, it is almost twice as large as it was in 1913. In the post-war years, as in the two decades before the World War began, national prosperity and income were increasing so rapidly that even a modern growth of total taxation left a slightly larger fraction each year for the private consumption of the citizens. It is possible that the fraction of income taken by taxes reached a minimum in 1926. If so, it is not federal taxation which should then receive the scrutiny and criticism, for federal taxation was decreasing; but rather state and local taxation, which were the true source of the increase in the taxpayers' bills, and which were growing with little criticism and few attempts at downward revision.

Modern tax systems.—The following table shows the general characteristics of the tax systems of the great industrial states of today. The heavy emphasis which Great Britain and the United States lay upon direct taxes in general, and upon the income tax in particular, is shown by the percentages of 46.5 and 56.9 per cent for income

⁴ Chart No. 159.

taxes in the respective countries. The minor position of income taxes in France and Italy, and the middle ground occupied in this respect by Germany, are shown by the figures for income taxes in those countries. The table also shows the extent to which the other main group of direct taxes, inheritance taxes or death duties, is used in Great Britain. The death duties furnished nearly one-tenth of the tax revenue in that country, but they are almost insignificant as revenue producers in the other four countries.

USE OF SPECIAL TAXES IN PRINCIPAL COUNTRIES ⁵

Country	Percentage of Total Tax Revenue Derived from					
	<i>Income and Profits Taxes</i>	<i>Death Taxes</i>	<i>Sales Taxes</i>	<i>Excises</i>	<i>Cus-toms</i>	<i>Other Taxes</i>
France, 1927.....	20.7	5.7 ⁶	20.8	11.2	10.4	31.2
Germany, 1926-7.....	35.2	.9	14.6	20.6	8.7	20.0
Great Britain, 1926-27..	46.5	9.8	.....	20.4	15.7	7.6
Italy, 1926-27.....	24.7	.6	5.8	12.0	11.7	45.2
United States, 1926-27..	56.9	3.3	.....	20.1	16.7	3.0

Types of taxation.—This table is a summary of types of taxation in the principal industrial countries. The first two columns show the importance of the two principal direct taxes, income taxes and death duties; the next three contain the figures for the principal indirect taxes, which are general turnover or sales taxes, excises, and customs; and the last column contains taxes not easily classified in any of the other five groups.

The table shows clearly the fact that income and profits taxes are the most productive and important taxes in every

⁵ Estimates given in League of Nations, *Memorandum on Public Finance*, 1922-26 (Geneva, 1927), pp. 200-1, 228-9, 245-6, 305-6, 461.

⁶ For year 1925-26.

country except France, where the sales tax is slightly more important, and makes clear the well-known fact that Great Britain and the United States make a greater use of income taxes than the Continental countries have yet found it possible to make. The relative unimportance of the much-discussed and disliked death duties, in every country except Great Britain, is brought out in the low percentages in the second column.

The principal countries now vary considerably in their use of the principal classes of indirect taxes. The sales tax has become the most productive tax of France, although it has not come into use at all in the United States and Great Britain. Germany uses it for an important part of the revenue, and Italy relies upon it for only a small sum. Excises on particular commodities and customs duties show less variation. Excises tend to be the more productive, and in the United States, Great Britain and Germany they furnish almost exactly a fifth of the revenue. Customs also seem to have a well-established though modest place in modern revenue systems. They are most important in the United States, where they yield a sixth of the revenue, and least important in Germany, where they yield a twelfth. The German yield is expected to improve, however.

The table bears out the general impression that the Latin countries rely principally upon indirect taxes, and shows the variations which are possible within that general class. The old forms of revenue, excises and customs, are shown to have an almost fixed place in tax systems, while the new sales tax may be of first importance or may be negligible or nonexistent.

The present American system.—In the course of the years which followed the outbreak of the World War the American federal revenue system has become one in which the rich pay the greater part of the taxes. With the income tax furnishing considerably more than one-half

the tax revenue the burden upon the poorer citizens is slight. Less than two per cent of the population make income tax returns at all, and the taxes paid by the incomes which fall in the lower brackets are negligible. It has been estimated elsewhere that an American, married with three children, in receipt of an earned income of \$5000, pays about \$4 in income taxes, while the British subject similarly situated pays about \$400.

Indirect taxes as well are slight in their burden. The total per capita taxation of this type is probably about \$12 or \$14, or perhaps \$60 for the family of five. In contrast, the British family of five, with an income of \$1000, pays \$61 for taxes on alcoholic beverages alone; and when the sugar tax and various other indirect duties are added, something more than \$100 is paid to the Exchequer in taxes, according to the Committee on National Debt and Taxation which reported in 1927.

In comparison with other countries the United States has had few revenue difficulties in the post-war period. Total ordinary receipts apparently reached the limit of their reduction in 1925. After that year they began to mount slowly, paralleling the gradually rising expenditures. In each year there was a treasury surplus. Rising from \$87,000,000 in 1921, the surplus reached \$505,000,000 in 1924, and the embarrassing dimensions of \$636,000,000 in 1927. Excess receipts to such an amount are scarcely an unmixed blessing, for they are almost certain to provoke hostility and criticism of Treasury policy. In commenting on the surplus in his Report for 1927 the Secretary of the Treasury said that it was an anomaly resulting from a combination of unusual and non-recurring items, and that it was unlikely to be so large in succeeding years.

Types of receipts.—The ordinary receipts of the federal government came from the following sources in the fiscal years 1920 to 1927:

ORDINARY RECEIPTS ⁷

Source	Per Cent of Revenue in Fiscal Year							
	1920	1921	1922	1923	1924	1925	1926	1927
Income and profits taxes....	59	57	50	42	46	47	50	54
Miscellaneous internal revenue.....	22	25	28	23	24	22	21	15
Customs.....	5	5	9	14	14	14	15	15
Foreign obligations.....	1	2	2	6	5	5	5	5
All other.....	13	11	11	15	11	12	9	11

The table shows that the federal revenue system has undergone distinct changes in character even since 1920, when the income tax was already well-established as the chief revenue-producer. The income tax itself has shown wide fluctuations with respect to its relative position in the tax system, but the average is not far from 50 per cent. General excises (known as "internal revenue," from which estate taxes, which are direct taxes rather than excises, should be subtracted) yield about a fifth of the revenue, but show a tendency to decline relatively. The change in customs is more striking. The customs receipts doubled in absolute amount between 1921 and 1923, and on account of the reductions in internal revenue and in income and profits taxes their relative importance increased even more sharply. Their constancy from 1923 through 1927 in the position maintained with respect to the other items is very striking. It indicates that they may for some time form about one-seventh of the revenue. The receipts from foreign obligations grew during the period, and during the last four years formed 5 per cent of the total receipts.

Changes in Great Britain.—In Great Britain, as well

⁷ *Annual Report of the Secretary of the Treasury*, year ending June 30, 1927 (Washington, 1927), p. 5.

as in the United States, the income tax has grown faster than any other tax in recent years. In 1925-26 it yielded about five times as much as in 1913-14, although considerably less than in the maximum year 1919-20. Customs and excises were only about three times as large as before the war, and they had failed to expand so largely in the intervening years. Death duties, the slowest of all to expand, grew gradually larger in Great Britain, but in 1925-26 they were only about two and one-half times as large as in 1913-14.

Changes in the war period itself have been analyzed by a student of British war finance who shows that the same degrees of elasticity were demonstrated by the various types of taxes during the war period as during the post-war period.⁸ The income tax increased in yield to almost eight times its pre-war size. No other tax even approached this degree of elasticity. Customs and excises became about four times as large as in the pre-war year, while death duties, which are sluggish and inelastic, increased only by one-half. Total revenue increased about seven times in the war period, an expansion which was obviously made possible by the elasticity and productivity of the income tax.

British relief to industry.—A new post-war device was utilized in the British budget for 1928-29, in which a national tax was announced as a means of relieving industry from the burdens of local taxation. Using the proceeds of a new gasoline tax which went into effect at once, all productive industry was to be relieved of three-fourths of its burden, outside of the national income tax, by October, 1929. Farm land, farm buildings, and livestock were to be freed entirely.

The step followed a prolonged movement on the part of British industries to establish a case for budget relief

⁸ H. F. Grady, *British War Finance* (New York, 1927), p. 79.

on the ground that local taxes were considerably more burdensome than existing national taxes. This evidence was found and presented to the Chancellor of the Exchequer, together with the well-known fact that certain major British industries were not up to 1913 production. It was also successfully established that the existing high local rates acted as a deterrent to installing new plant and making replacements, one of the points at which British industry was apparently at a disadvantage in the international competitive race.

Certain industries also suffered from the fact that the burden of local rates varied in the different sections of the country. Businesses in a heavily taxed district were at a disadvantage in competition with businesses which were more favorably situated. The expenditure for poor relief, which formed one of the three principal objects of expenditure of the local governments, was necessarily highest in those districts in which business was poorest. The local tax rates, therefore, tended to be highest in the depressed regions. This created fresh unemployment, through its influence in bringing about high costs, business failures, and idle plant, and the situation grew progressively worse.

In March, 1928, the Engineering and Allied Employers' Federation issued a *Memorandum* which opened with the statement that "the burdens which have to be borne by industry are becoming intolerable. The money cost of local rates and services per unit of output has at least trebled since 1913." The burden of local rates (which met the costs of poor relief) and of social charges (the most important of which was the unemployment "dole") were said in the *Memorandum* to be about 9 or 10 per cent of the selling price of steel products. The remedy chosen by the Chancellor was one which was foreign to American habits and impossible constitutionally in

the United States, but which nevertheless aroused interest as a novel way out of the difficulties of heavy post-war taxation.

Double taxation.—The high level of post-war tax rates, together with the expansion of international commercial relationships in which the United States had a more than proportionate share, produced a new problem of double taxation. Although profits derived from international transactions were subjected to double taxation before 1914, the rates were in general so low that taxes paid to two countries on the same profits did not form an impediment to trade.⁹ During the World War the rates became much higher, and on certain incomes they reached 50 to 100 per cent. The post-war reductions were only partial. Rates on corporation profits in 1928 were 20 per cent in Great Britain and Germany, 15 per cent in France, and 16 per cent in Italy. Rates of taxation of interest were 20 per cent in Great Britain, 10 per cent in Germany, 20 per cent in France, and 20 per cent in Italy.

Efforts at reform.—Various types of efforts to minimize the difficulty have been made. Internal legislation and bilateral agreements have been obtained, but the process of reform has been slow. In 1921 the League of Nations undertook to deal with the problem. A committee was appointed consisting of four economists, Professor Seligman of Columbia University, Professor Bruins of the Commercial University of Rotterdam, Professor Einaudi of Turin University, and Sir Josiah Stamp of London University, to examine the question. The International Chamber of Commerce, which has worked continuously on the problem since 1920, has cooperated in various ways.

In 1922 the League obtained nominations from seven

⁹ M. B. Carroll, *Double Taxation Relief* (Washington, U. S. Department of Commerce, 1928), p. 2.

countries for a second group, a committee of technical experts, to study the question from the point of view of possible agreement to be reached and other practical and administrative angles. In 1926 this committee was enlarged and the United States became a member, with Professor T. S. Adams of Yale University as its representative.

Formulation of principles.—Principles of taxation were formulated anew by the committee of economists appointed by the Financial Committee of the League in pursuance of the decision made in 1921. These principles, which appear in the committee's report,¹⁰ represent the best of the few post-war efforts to adapt modern fiscal theory to existing rather than to pre-war conditions. Although the ability or faculty theory formulated by Adam Smith a century and half before remained the ground-work, in the hands of these economists it ceased to be a parrot-uttered formula and received elaborations under which it acquired meaning for modern economic life.

In view of the indisputable fact that all taxes are ultimately paid by *persons*, whether or not they appear at first to fall upon *things* or objects, the possible criteria for levying personal taxes were formulated as follows:

1. Political allegiance,
2. Temporary residence,
3. Domicile or permanent residence,
4. Location of the wealth.

The committee decided that apart from the question of nationality, which played a minor rôle, the choice lay between the principle of domicile and that of location or origin. They held that the reason why tax authorities were wavering between the two principles was that each was in essence a part of a still broader principle, that of economic

¹⁰ League of Nations, *Report on Double Taxation* (Geneva, 1923).

interest or economic allegiance, which in a sense was in process of replacing the doctrine of political allegiance.

Doctrine of economic allegiance.—The doctrine of economic allegiance implies that a part of the total taxes paid by each person ought to reach the competing authorities according to the person's economic interest under each authority. The ideal solution would be the taxation of the individual's whole faculty, but taxation of that faculty only once, and the division of the liability among the tax districts according to his relative interest in each.

The doctrine of economic allegiance has thus been formulated as a starting-point for modern theory and administration. In the more complex communities the doctrine is expressed in terms of tax systems which are adjusted to ability to pay. Since all taxes ultimately fall upon individuals, the progressive taxes of the modern states have come to be considered the fairest devices for obtaining the tax payments from individuals.

Although the doctrine of economic allegiance, based on ability to pay, has been widely accepted in connection with the ordinary taxes on property and income, the committee found that in the case of the so-called death duties or inheritance taxes the principle was only partially accepted, even in modern legislation. Inheritances are not taxed as income, even though they increase the ability of the individual recipient. A progressive inheritance tax is graded according to the amount of the inheritance and not according to the wealth of the recipient. Such graduation is, according to the committee, "only a rudimentary concession to the faculty of the recipient." The stage of development at which a higher rate of inheritance tax would be imposed upon the wealthier recipient simply because he was the wealthier has not been reached.

The ideal allocation.—The principles which should govern the allocation of a tax were formulated by this

committee of economists. On the assumption that economic allegiance is the basis upon which the total tax paid by the individual should reach the competing authorities, the ways and extent to which a man who is served by two governments owes them tax payments were set forth as follows, under the caption "the four elements of economic allegiance."¹¹

1. The acquisition of wealth,
2. The location of wealth,
3. The enforceability of the rights to wealth,
4. The consumption of wealth.

Rephrased as points which become significant in considering the proper place of taxation, these become respectively:

1. Origin of the wealth,
2. *Situs* of the wealth,
3. Enforcement of the rights to wealth,
4. Residence or domicile.

Economic allegiance and income.—The principal countries were grouped as follows with respect to their taxes on earning, yield, or income:

1. Those whose fiscal system is not developed beyond a stage of separate taxes upon things and different objects of wealth (such as France and Belgium before the war, with their *impôts réels*, and the German States, with their *Ertragsteuern*);

2. Those that have a system of taxes upon separate kinds of wealth, which amounts in the aggregate, roughly, to a kind of tax upon total income, and are often supplemented by an actual tax upon total wealth (e.g., in France and Italy under the law of 1919, designed to take effect in 1923 but postponed);

3. Those countries which have a pure income tax upon total annual resources as one of the main sources of

¹¹*Ibid.*, pp. 22 *et seq.*

revenue, such, for example, as the United States, Germany, Great Britain and Holland (the scheduled system in Great Britain being merely administrative machinery towards a pure graduated tax, the schedules themselves having no separate validity or existence except as a part of the whole).

Ideal apportionment.—The conclusions reached, with respect to an ideal theoretical apportionment of economic allegiance as between origin and domicile, were as follows:¹²

<i>Category of Wealth</i>	<i>—Preponderant Element—</i>	
	<i>Origin</i>	<i>Domicile</i>
I. Land.....	×	
II. <i>a.</i> Mines, oil wells, etc.....	×	
<i>b.</i> Commercial establishments....	×	
III. <i>a.</i> Agricultural implements, machinery, flocks and herds.....	×	
<i>b.</i> Money, jewelry, etc.....		×
IV. Vessels.....	×	(regist.)
V. <i>a.</i> Mortgages.....	×	(property)
<i>b.</i> Corporate shares.....		×
<i>c.</i> Corporate bonds.....		×
<i>d.</i> Public securities.....		×
<i>e.</i> General credits.....		×
VI. Professional earnings.....		×

In other words, two modern industrial countries which desire to make an allocation of economic allegiance for purposes of equitable taxation, should assign all corporeal wealth, including immovables and tangible movables (except money, jewelry, furniture, etc.) to the place of origin; and all intangible wealth (except mortgages on property) predominantly or wholly to domicile or residence.

Avoiding double taxation.—The then (1923) existing methods of avoiding double taxation were classified as follows:

When the first, which may be called “the method of *total deduction*” is used, the country of domicile deducts

¹² *Ibid.*, p. 39.

from the taxes due from its residents the *whole* of the tax paid by them abroad on their income. This is the method applied in principle in the United States.

The second method is the extreme converse. Under this plan the country of origin exempts non-residents from taxes imposed on income derived from sources within its borders.

When the third method is used the tax is divided and the relief allocated between the two states. In general this is the system which has been used in the British Empire and between Great Britain and the Dominions.

The fourth method may be called the *assignment* of income. This consists in apportioning particular classes of wealth specifically and wholly to the countries concerned, so that each country, independently of the other, taxes the part of the wealth which is assigned to it.

Consistently with the analysis given earlier, in which an ideal apportionment of wealth was aimed at, the committee looked forward "to an ultimate development of national ideas on uniform lines toward method 2."

Other recommendations.—A question which so intimately concerns modern commercial institutions was naturally of great interest to the International Chamber of Commerce. This organization in 1921 appointed a committee to study the problem. This committee submitted to the congress at Rome in 1922 a series of resolutions which were later modified and approved. Close contact with the League of Nations in its efforts in the field of double taxation was maintained by the International Chamber of Commerce.

In 1924 the Chamber adopted its resolutions in a new form. Resolution I, which applied to all direct taxes, represented the general position taken by the committee composed of economists. The resolution was phrased as follows:

In order to avoid double taxation, the best means would be to accept residence as a basis of the tax on income. They [the Committee] recognize, however, that the application of this principle could not be expected completely to preclude all taxation according to its origin of income derived from landed property or even from commercial or industrial enterprises.

In all cases, without exception, where taxation according to origin cannot be avoided, the Committee consider that a distinction must be made between taxes affecting income at its origin and those which affect the taxpayer by reason of his residence and are charged upon his entire income. They consider it essential that the country of origin should confine itself to taxing income accrued within its territory by a tax at the source, at the same time strictly limiting this taxation.

It follows from the above that the country of origin is not entitled to require from the non-resident taxpayer declarations covering any composite part of his income, no matter what its origin may be.

Post-war treaties.—Since 1918 a number of treaties have been concluded in the effort to prevent double taxation.¹³ Each of them contains the provision that, except for stipulated exceptions, nationals of the signatory states shall be subject to the direct taxes only of the state in which they have their domicile or habitual residence. The exceptions include the taxing of real estate and mortgages thereon, and business profits in the country where the property from which the earnings arise is located. Such treaties were signed in 1921 and 1922 between Czechoslovakia and Germany, Austria and Czechoslovakia, and Austria and Germany.

A collective agreement was signed at Rome in 1922 by Austria, Hungary, Italy, Poland, Rumania, and Czechoslovakia. In this agreement the distinction between "impersonal" taxes on particular kinds of income and "personal" taxes on entire income, which was used by the League's experts in 1923 was used. In general the "impersonal" taxes applied to the items of income which were allocated to the country of origin in earlier treaties, while

¹³ M. B. Carroll, *Double Taxation Relief* (Washington, U. S. Department of Commerce, 1928), pp. 2 *et seq.*

the "personal tax" was to be imposed at the residence of the taxpayer on his total income, with the exception of revenue from real estate, mortgages, industry and commerce, and work.

Germany and Italy.—The convention signed by Italy and Germany in 1925 is considered significant of the trend in the treatment of double taxation. In this convention definitions of direct taxes were carried further, in response to existing differences in the taxes themselves. "Impersonal" direct taxes were defined as those levied on different objects belonging economically to the territory of a State, and "personal" direct taxes those levied on the entirety of taxable objects, having regard to the person of the taxpayer to whom the objects belong and to his nationality, domicile, or place of residence.¹⁴

The parts of income taxable at their origin were substantially the same as those stipulated in the earlier conventions. Income from real property and business establishments was declared subject to impersonal taxation in the country of location. Industrial or commercial enterprises with establishments in both countries might be required by the fiscal authorities of each to submit the necessary financial papers for allocating the taxable income. Shipping profits, as exceptions, were made taxable only in the country in which the actual administrative work was done. Wages, salaries and professional gains were made taxable only where the service was rendered.

An impersonal tax on dividends, borne by the shareholder, may be levied by the country in which the head office of the company is situated. Interest on deposits is subject to impersonal taxation by the country in which the credit establishment is located.

The personal tax is to be imposed according to the principle of origin for certain kinds of income, such as income

¹⁴ *Ibid.*, p. 3.

from real estate, mortgages, and industrial and commercial profits; and to the principle of residence for dividends, interest on bonds, and similar classes of income. The two-fold provision for taxing dividends arose from the necessities of the corporation tax law of Germany.

Great Britain and the Irish Free State.—The principle of domicile which appears in an agreement concluded between Great Britain and the Irish Free State in 1926 is a contrast to the practice described above of taxing parts of the income at the origin and part at the residence. The agreement prevents double taxation by requiring each government to give up its tax on non-residents' income from sources within the country, and to leave it to the country in which the recipient resides.

Draft convention of 1927.—The committee of technical experts which met in London in 1927 adopted the classification of income taxes as "impersonal" and "personal." Impersonal taxes are to be levied where the source of a particular kind of income is located, and personal taxes on *total* income in the country of residence. Double taxation is to be prevented by allowing the country of origin to impose only the impersonal tax on income derived by a non-resident. The country of residence is to exempt the foreign income of the resident from its own impersonal tax, but may subject it to its personal tax.

Such an agreement could not succeed without a classification of the taxes of each country which should be considered "impersonal" and "personal." The American member of the committee, recognizing the difficulty underlying the use of the terms themselves, submitted an alternative convention to be used by countries which might desire to avoid disputes about the interpretation of the terms. He substituted "origin" and "residence" for "impersonal" and "personal," and with one exception offered

for adoption the same principles for origin taxes as those for impersonal taxes in the draft convention.¹⁵

Progress in this field necessarily will be slow. The conventions concluded between European states are only a beginning. The barrier of double taxation is generally regarded as an artificial and outworn one, and its elimination is one of the most difficult and pressing tasks of post-war governments in their external relations. It is believed that international commerce, one of the chief preoccupations of the modern industrial states, will be facilitated by a removal of the artificial barriers of double taxation.

BIBLIOGRAPHICAL NOTE

In addition to the material suggested in the bibliographical note appended to Chapter III, the student will be assisted in the study of taxation in the principal countries by official and semi-official reports. The annual *Reports of the Secretary of the Treasury* (Washington, D. C.) for the years since 1920 are indispensable. An excellent companion volume is the National Industrial Conference Board *Cost of Government in the United States* (New York, 1926), fully one-half of which is concerned with the volume and burden of taxation in the United States.

For foreign countries the best compilation is the League of Nations' *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), and the earlier companion volume, *Memorandum on Public Finance, 1922* (Geneva, 1923). The British *Report of the Committee on National Debt and Taxation* (Cmd. 2800, London, 1927), is an incomparable study of the tax factors affecting the national debt.

Three reports on double taxation are indispensable for an understanding of that problem: League of Nations, *Report on Double Taxation* (Geneva, 1923), League of Nations, *Double Taxation and Tax Evasion* (Geneva, 1925), and M. B. Carroll, *Double Taxation Relief* (Washington, U. S. Department of Commerce, 1928).

Excellent accounts of war and post-war taxation from private sources may be found in H. F. Grady, *British War Finance* (New York, 1927), and E. R. A. Seligman, *Studies in Public Finance* (New York, 1925). J. A. Hobson, *Taxation in the New State* (New York, 1920) is helpful for an understanding of the British situation. E. L. Bogart, *War Costs and Their Financing* (New York, 1921) contains a description of war-time changes in the principal countries.

¹⁵ *Ibid.*, Appendix II.

CHAPTER V

THE MODERN AMERICAN INCOME TAX

Pivotal position of the income tax.—The conspicuous growth of direct taxes in the United States and in the principal European countries since 1914 has been due almost entirely to a greater dependence upon income taxes. Even the new sales taxes, with their enormous yields, have not been able to maintain for the indirect tax group its earlier important place.

Unlike the sales tax, the income tax is far from being a post-World-War invention. It has had a long history and an honorable place in the fiscal systems of the nineteenth and early twentieth centuries. Nevertheless the tax was not popularized or expanded to a position of first importance until the unprecedented demands of the World War produced an adaptation of tax measures to the tax-paying capacities of citizens of the modern industrial states.

The following table shows the extent of reliance upon income and profits taxes in the principal countries.¹ Even the country least habituated to direct taxation, France, uses the tax for one-fifth of the total tax revenue, while Great Britain and the United States rely on it for approximately one-half, Germany occupies a middle position, and

¹ The absolute sums produced by the income taxes in the various countries are given in the appendix, in the detailed analyses of revenue reproduced from the League of Nations' *Memorandum on Public Finance, 1922-1926*.

Italy is not unlike France. Even in Great Britain, where the income tax has been well established for nearly a century, the gain over the pre-war tax, which furnished about a quarter of the tax revenue, is significant. The United States had no personal income tax before the war, but after 1909 it did record small receipts from the income tax on corporations which was known as the "Corporation Excise Tax." The French tax was not in existence in the form of a general income tax until just before the World War began, and the German tax became a national tax only in 1914. The Italian tax is of long standing.

INCOME AND PROFITS TAXES IN PRINCIPAL COUNTRIES ²

<i>Country</i>	<i>Percentage of Total Tax Revenue Derived from Income and Profits Taxes</i>
United States, 1926-27.....	56.9
Great Britain, 1926-27.....	46.5
Germany, 1926-27.....	35.2
Italy, 1926-27.....	24.7
France, 1927.....	20.7

Excess profits duties.—One of the new devices by which the resources of highly developed industrial countries were made available for the treasuries was the excess profits tax. It represented an attempt to collect taxes on rates of return which were assumed to be abnormal. The tax developed in two forms, war profits taxes and excess profits taxes. In one or both forms it was used by most of the belligerent countries.

The excess profits tax in the United States had its origin in an act passed in 1916 which imposed a tax of 12.5 per

² Estimates given in League of Nations' *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), pp. 200-1, 228-9, 245-6, 305-6, 461.

cent on the profits of munition manufacturers. From this an excess profits tax on corporations with a maximum of 65 per cent and a war profits tax with a maximum of 80 per cent were developed. The tax law was repealed in 1921 and the taxes passed out of existence on January 1, 1922. The British excess profits tax arose from a source similar to that in the United States, namely, a tax on munition manufacturers (Munitions of War Act, 1915). In 1918 the rates, over and above an exempted minimum, reached a maximum of 80 per cent. This tax also was repealed after the end of the war. A student of British war taxation comments on it as follows:³

A 100 per cent excess profits tax would seem to have been practicable as well as just. The difficulties of administration would have been no greater than for the 80 per cent tax. On the other hand, with the 100 per cent levy there would have been no incentive to pass all, or any part of it, on to the consumer (for the most part the Government), and one of the fruitful sources of price inflation would not have existed. . . . The excess profits tax might properly have been called the "excess price" tax, for the government simply took back through this duty, *part of* what it paid manufacturers in the form of excess prices for war goods.

The sudden growth.—One of the sharpest contrasts between the income tax of pre-war years and the income tax of today may be seen in the United States. Before the World War the federal tax, hidden under the name of an excise tax on corporations, furnished only 5 per cent of the revenue of the country. In 1927 it produced 66.4 per cent. In the latter year income taxes yielded more than \$2,225,000,000 to the Treasury, or *more than three times the Government's total tax receipts from all sources in 1913*. This productivity is unprecedented, but the rates which have produced it are also unprecedented. Before 1913 a 2 per cent rate on income was regarded as a conventional and practicable rate. The suggestion that total

³ H. F. Grady, *British War Finance* (New York, 1927), p. 115.

nominal rates in the United States were to rise to 77 per cent on the largest fortunes would have seemed fantastic. Nevertheless the increase was to occur.

The following table furnishes the contrasts between 1913 and 1927, and shows the extent to which customs and miscellaneous taxes have lost their relative importance in the fiscal system, although their yield in dollars was about twice as great in 1927 as in 1913.

RELATIVE IMPORTANCE OF AMERICAN TAXES ⁴
1913 and 1927

<i>Class of Tax</i>	<i>Amount (Millions of Dollars)</i>	<i>Per Cent of Total Tax Revenue</i>
Total tax revenue, 1913.....	663	100.0
Total tax revenue, 1927.....	3475	100.0
Income and profits, 1913.....	35	5.3
Income and profits, 1927.....	2225	64.0
Miscellaneous internal, 1913.....	309	46.6
Miscellaneous internal, 1927.....	644	18.5
Customs, 1913.....	319	48.1
Customs, 1927.....	606	17.5

The table shows that while the total tax revenue of the Government was about five times as large in 1927 as in 1913, income and profits taxes yielded more than sixty times as much in the later year. In 1927 income and profits taxes produced more than two billion dollars, or more than three times the *total* tax revenue of the last pre-war year, and furnished about two-thirds of the total tax revenue. Miscellaneous internal revenue and customs had only a moderate and normal growth in the same period.

⁴ Adapted from the *Annual Report of the Secretary of the Treasury* (1926), pp. 458-9; (1927), p. 6.

With the expansion of the country the revenue from each of the two general classes naturally increased, so that in 1927 each had practically doubled, and each produced more than \$600,000,000 in that year. However, their shares in the production of total tax revenue were reduced from nearly one-half in 1913 to 18.5 per cent and 17.5 per cent respectively in 1927, on account of the far more rapid rate of growth of the income tax receipts.

Nature of the tax.—For purposes of taxation income is usually defined as receipts during a given time. The source may be ownership of tangible property or securities; activity in a trade, profession or other occupation; or receipts from insurance, pensions, or a variety of other sources. Income is usually taxed as a whole, as in the United States, or by schedules, that is, according to the sources from which it is derived, as in Great Britain, or the two methods may be combined. Ordinarily progressive rates are used.

The income tax is generally held to be a fair and just tax in its operation. It is adjusted, more or less accurately as the case may be, to ability to pay. Exemptions corresponding to the minimum requirements of living for the individual and for the family are universal. The tax does not materially affect the marginal producer, seller, or worker, and therefore cannot ordinarily be shifted to the consumer in the form of an enhanced price of the product.⁵

The origin and pre-war history of the important income taxes have been fully described by Professor Seligman.⁶ In the present volume the national income taxes will be treated historically only to the extent which an understanding of recent changes requires.

⁵ See Professor Seligman's analysis of income taxes and the price level in *Studies in Public Finance* (New York, 1925), pp. 59 et seq.

⁶ E. R. A. Seligman, *The Income Tax*. Rev. ed. (New York, 1914.)

History of the American income tax.—United States income tax history opened in 1862, during the Civil War, with the imposition of a tax on “the annual gains, profits or incomes of any person residing in the United States, whether derived from any kind of property, rents, interest, dividends, salaries or from any profession, trade, employment or vocation carried on in the United States or elsewhere, or from any source whatever.” Incomes below \$600 were exempt. The rates were 3 per cent for amounts below \$10,000 and 5 per cent for incomes of \$10,000 or above. An act passed in 1864 increased the rates to 5 per cent on amounts of \$600 but not more than \$5000, 7½ per cent on amounts above \$5000 but not above \$10,000, and 10 per cent on the excess above \$10,000. Further changes were made in 1865, 1866, 1867 and 1870. In 1872 the tax was given up.

In 1894 a new law imposing a tax of 2 per cent on incomes of more than \$4000 was passed. The tax applied to corporate as well as to individual incomes. The law was declared unconstitutional by the United States Supreme Court, on the ground that it imposed a direct tax on income from real property without apportioning it, while under the Constitution direct taxes “shall be apportioned among the several States . . . according to their respective numbers.”⁷

The constitutional amendment.—In 1913 an income tax amendment, the Sixteenth Amendment to the Constitution of the United States, provided that “Congress shall have power to lay and collect taxes on incomes, from whatever sources derived, without apportionment among the several states, and without regard to any census or enumeration.” A law providing for an income tax at moderate rates, 1 per cent normal tax and 1 to 6 per cent surtaxes, was promptly passed. During the World

⁷ *Pollock v. Farmers' Loan and Trust Co.*, 157 U. S. 429; 158 U. S. 601.

War the rates rose until the maximum normal tax was 12 per cent and the maximum surtax rate was 65 per cent, giving a total nominal rate of 77 per cent. This was under the income tax law of 1918. Before January 1, 1928, seven revenue acts, those of 1913, 1916, 1917, 1918, 1921, 1924 and 1926 had changed or modified the rates.

Unearned income, or "investment income," as it is termed in the more recent tax literature, was first discriminated against under the Revenue Act of 1924. Under this law a deduction of 25 per cent of the tax was allowed in the Act of 1926 for earned income in the lower income tax classes. By the Revenue Act of May 29, 1928, the maximum upon which the earned income credit was allowed was raised from \$20,000 to \$30,000.

Summary of rates.—The rates which were imposed during the World War and afterwards were as follows:

INCOME TAX RATES IN THE UNITED STATES

<i>Revenue Act Year</i>	<i>Tax Rate in Per Cents</i>		
	<i>Normal</i>	<i>Maximum Surtax</i>	<i>Total Nominal</i>
1913	1	6	7
1916	2	13	15
1917	4	63	67
1918	6; 12	65	77
1921	4; 8	50	58
1924	2; 4; 6	40	46
1926	1.5; 3; 5	20	25

The system of rates adopted in 1913 was simple: it consisted of a tax of 1 per cent on all income above \$3000 (\$4000 for married persons) and a superimposed graduated tax beginning at 1 per cent on incomes of \$20,000

and reaching its maximum of 6 per cent on incomes of \$500,000 or more. This is the "normal" and "surtax" structure whose nomenclature is retained in the post-war tax laws, but which has become difficult of comprehension because the normal tax, originally a simple proportional tax on all income, has itself become graduated, and also modified by earned income deductions. The complication was introduced by the Revenue Act of 1918, which imposed two normal tax rates, or, rather, a doubled normal tax on net incomes in excess of \$4000. In 1924 three normal rates appeared, as given in the above table.

The federal income tax as it stood in 1927 retained the three rates of normal tax, with slight reductions in the percentages, so that 1.5 per cent applied to the first \$4000 of taxable income, 3 per cent to the next \$4000, and 5 per cent to the remainder. Surtaxes began at 1 per cent on net incomes in excess of \$10,000 and reached a maximum at 20 per cent on incomes of more than \$100,000. The tax might be reduced by 25 per cent of the amount of the tax which would be payable if the taxpayer's earned net income constituted his entire net income. The personal exemptions were \$1500 for a single individual, \$3500 for a married couple or the head of a family, and \$400 for each dependent. The corporation tax rate was 13.5 per cent on the net income in excess of \$2000.

Course of the yield.—The increase in the produce of American income and profits taxes has been amazing, as the subjoined table shows. In the fiscal year 1912-13 the Federal Government had no personal income tax, but merely a so-called excise tax of 1 per cent on the net earnings of corporations. In that year the yield of the income tax on corporations was \$35,000,000, or approximately 5 per cent of the total tax revenue of the Federal Government. Three years later, in 1915-16, when the new progressive income tax on individual incomes was in force,

together with a corporation income tax, the yield of income taxes was \$125,000,000, or about 17 per cent of the tax revenue. In response to subsequent changes in the rates the yield mounted sharply to \$2,839,000,000, or 73 per cent of the tax revenue, in 1917-18, and to an even larger absolute amount, \$3,944,000,000, or about 69 per cent of the revenue, in 1919-20.

YIELD OF INCOME TAXES IN THE UNITED STATES ⁸

Year	Total Tax Revenue (Millions of Dollars)	Income and Profits Taxes	
		Yield (Millions of Dollars)	Per Cent of Tax Revenue
1910	624	21	3.4
1911	637	34	5.3
1912	633	29	4.6
1913	663	35	5.3
1914	672	71	10.6
1915	625	80	12.8
1916	726	125	17.2
1917	1035	360	24.8
1918	3878	2839	73.2
1919	4024	2691	66.9
1920	5728	3944	68.8
1921	4905	3206	65.4
1922	3570	2068	57.9
1923	3186	1679	52.7
1924	3341	1842	55.1
1925	3137	1761	56.1
1926	3417	1982	57.9
1927	3475	2225	64.0

The income tax rates which yielded the unprecedented amount of almost four billion dollars in 1919-20 were

⁸ Adapted from the *Annual Report of the Secretary of the Treasury* (1926), pp. 458-9; (1927), p. 6

imposed by the Revenue Act of 1918. There were a 6 and 12 per cent normal tax and 1 to 65 per cent surtaxes, making a total nominal maximum rate of 77 per cent. The practicability of the imposition of such rates had not been foreseen in this country or in any other. Peace, with its moderate fiscal demands, had been assumed to be permanent, and experiments with income taxes had been slow in developing. Just before the outbreak of the World War a well-known exponent of the income tax had described the limits of safety for income taxation in ordinary times. The exact words follow:⁹

. . . The maximum rates of the additional tax imposed by the law of 1913 are clearly excessive. They rise to 6 per cent upon the excess of incomes above \$500,000, and with the ordinary tax make a total charge of 7 per cent. Now the limit of safety for income taxes is probably 10 per cent; and it certainly does not exceed 12, as the experience of all countries shows. The United States, therefore, has appropriated for its use about 70 per cent of the total possible proceeds of direct taxation upon large incomes, and its action will seriously embarrass the states in the efforts they are now making to tax personal property effectively or replace the personal-property tax with a state tax upon incomes.

Potentialities of the tax.—The table above, presenting the revenue from income and profits taxes from 1910 to 1927 and the percentage which they formed of the total tax revenue, offers conclusive proof that enormous sums may be gained from income taxes even in a country which is relatively unfamiliar with their use and which has never looked favorably upon direct taxation by the federal government. It also shows the high degree of elasticity of the income tax in a country in which per capita income is large.

The year of largest yield, 1920, was a year of general prosperity. After that time, and with the reduction of

⁹ C. J. Bullock, *Selected Readings in Public Finance*, second edition (Boston, 1920), p. 442 (reprint of a paper written soon after the passage of the Act of 1913).

rates which the Revenue Act of 1921 contained, the produce of the tax fell off slightly. Through 1927, however, the tax continued to show a yield three or four times as great as the total tax revenue of the government before the war, and a degree of elasticity and responsiveness to rates which other forms of taxation could not share.

The corporation income tax.—More than one-half of the receipts from the income tax in the United States in recent years have been derived from the tax on corporation profits, and it was estimated by the Secretary of the Treasury that after 1925 the proportion would be well above 60 per cent. The part of the income tax yield which was furnished by the corporation tax in 1922 was 47 per cent; in 1923, 59 per cent; in 1924, 56 per cent; and in 1925, 61 per cent.¹⁰ These figures establish the fact that the greater part of the American income tax, which is ordinarily assumed to be mainly a graduated tax on personal incomes, is a 13.5 per cent tax on corporate dividends collected at the source. Dividends of corporations taxed in this way are exempt from taxation under the ordinary personal income tax. Whether this tax affects to the greater degree the working class, which is to a considerable extent an investing class in the United States, or the wealthy class, which would otherwise be liable to income taxation at from 20 to 25 per cent, is difficult to say. It is probably the latter, so that the wealthy are apparently taxed less heavily than a first glance at the schedule of personal income tax rates would indicate.

A committee of the National Tax Association, known as the Committee on the Simplification of the Income Tax, was so deeply impressed by the apparent injustice of the existing corporation tax rate that it incorporated

¹⁰ *Annual Report of the Secretary of the Treasury* (Washington, 1927), p. 9.

into its report published in 1927 a section on the tax. Under the caption, "Double Taxation of Corporate Income," the committee said that the corporation income tax was "a beautiful example of a tax on the theory of ability to pay gone wrong."

The way of stopping what the committee considered a travesty on the theory of ability to pay was, in its opinion, the abolition of the income tax on corporations. The only recipient who should be taxed, it urged, is the natural person as stockholder who enjoys the income earned by the corporation. A return to the idea that for purposes of income taxation a corporation is merely a conduit through which income passes was advocated. Income which is temporarily retained and does not pass through, that is, undistributed earnings, should be taxed at not more than 10 per cent, in the opinion of the committee. By the Revenue Act of May 29, 1928, the rate was reduced from 13½ to 12 per cent.

The drive for reduction.—Although fiscal policy with respect to the income tax is not yet so definitely formulated in the United States as it is in Great Britain, the results show that in both countries the income tax is treated as the most important of the flexible items on the revenue list. The income tax, in short, is capable of expansion to an almost unlimited degree, and, of course, capable of corresponding contraction.

As soon as the emergencies of the World War were over a movement to reduce the rates of the income tax appeared and gathered strength. The Act of 1921, with its reduction of the maximum surtax from 65 to 50 per cent and its reduction of the normal tax by approximately one-third, reflected the early agitation. The Revenue Acts of 1924 and 1926 brought further reductions. The seven years following 1920 (the year of maximum yield) saw successive reductions, just as the preceding seven

years had seen repeated increases, although the income tax did not fully return to its original modest dimensions.

The sharp decline in national expenditures after 1919 made the sweeping reductions in the income tax, as the principal tax in the revenue system, an inevitable change. The arguments, however, rested largely upon the possible injury done to business enterprise by the continuance of high surtaxes. In a volume *Taxation: the People's Business*, published by Secretary of the Treasury Andrew W. Mellon when the Revenue Act of 1924 was in preparation, the "present unsound basis of taxation" was stressed. The Secretary continued:¹¹

The existing tax system is an inheritance from the war. During that time the highest taxes ever levied by any country were borne uncomplainingly by the American people . . . For a short time surtaxes yielded a large revenue. But . . . history shows that taxes which are inherently excessive are not paid. The high rates inevitably put pressure upon the taxpayer to withdraw his capital from productive business . . . The result is that the sources of taxation are drying up; wealth is failing to carry its share of the tax burden; and capital is being diverted into channels which yield neither revenue to the Government nor profit to the people.

Proof of the diversion of wealth to unproductive uses on account of the burden of taxation has never been fully supplied in the United States, which is a country where the urge towards industry is inescapable. But the reductions in the income tax were bound to come. In addition to lowering the rates, the Act of 1926 so raised family exemptions that only a small proportion of the people in the United States were income tax payers. For the fiscal year ending June 30, 1926, there were only 2,334,823 income taxpayers in the United States, as compared with twice that number in the preceding year. The base of income taxation in the United States was becoming narrower than that in any comparable country.

¹¹ A. W. Mellon, *Taxation: the People's Business* (New York, 1924), pp. 12, 13.

Desirability of simplification.—Although observers from Great Britain have occasionally said that the frequent overhauling of the American income tax, in contrast to the stability of the British tax with changes in rates only, is a healthful thing for the United States, expert opinion in the United States is on the other side. The National Tax Association's Committee on the Simplification of the Income Tax, reporting in 1927, said that simplification should be done with due deliberation, and that "once a clear statement of general principles is enacted it should remain unchanged in verbiage. Five or even ten years may be necessary for a clear comprehension of a statute to sink into the intelligence of a great mass of taxpayers." The report continued: ¹²

Let us have a statute of general rules as a foundation on which the courts can build a just and equitable system. Let us have reasonable rates tempered to the taxpayer's real ability to pay. Let such an income tax stand at unvarying rates except in cases of national crises. Let temporary deficiencies in revenue be made up from other sources. Keep the income tax steady, as a reliable backbone of national revenue at rates which the country will accept as not too burdensome. . . . The income tax would then tend away from what it now is—a game of wits, of clever manipulation of profits, of artificial forms and technical avoidance, a game in which the sophisticated win and the unsophisticated suffer.

Income taxes as urban taxes.—The income tax in the United States is an urban and an industrial tax, if the sections of the country from which the principal revenues are derived may serve as a criterion. The principal states and the least important states in 1927 were as shown in the table on page 77.

New York and Pennsylvania supply 36 per cent of the receipts from the income tax; that is, these two industrial states furnish almost one-fifth of the total federal revenue, exclusive of whatever amounts their citizens furnish

¹² *Report by Committee of the National Tax Association on Simplification of the Income Tax* (Toronto, 1927), pp. 12, 13.

<i>State</i>	<i>Per Cent of Total Income Taxes Paid</i>	<i>Per Capita Income Taxes Paid</i>
New York.....	27	\$66.10
Pennsylvania.....	9	26.59
Illinois.....	8	29.79
North Carolina.....	7	70.00
Michigan.....	7	44.10
South Dakota.....	.03	1.18
Nevada.....	.02	7.45
New Mexico.....	.02	1.73

through the medium of other taxes. Under the pre-war system of taxation, when customs and internal revenue furnished nearly all of the national government's income, taxpaying was far less concentrated.

American income tax as a class tax.—In spite of the fact that the existence of an income tax is usually given as proof of the use of "democratic" taxation in a country under analysis, the income tax of the United States as it stood in 1927 was the least democratic of the income taxes of the great countries. It had become, as the Secretary of the Treasury said in his annual report for 1927, "a class rather than a national tax." Only about 2 per cent of the population were income taxpayers, as against a fraction several times as large in Great Britain. The American tax applied only to the incomes of those in comfort and luxury, while in the other great countries the income tax reached to the less prosperous.

The phenomenal growth of this tax and the fact that it furnishes an even higher per cent of the national government's revenue than the British income tax have caused the two taxes to look very much alike at first glance. In fact, however, the American tax is a class tax whose

productivity is dependent upon the maintenance of a permanently very wealthy class, while the British tax reaches nearly every family in the Kingdom which has a surplus above the minimum cost of living.

BIBLIOGRAPHICAL NOTE

The literature which deals with the income tax is full and accessible. The *Annual Reports of the Secretary of the Treasury* and the *Statistical Abstracts of the United States* supply the necessary material for an outline of recent history. They may be supplemented by *Statistics of Income*, published annually by the United States Commissioner of Internal Revenue. The best account of the pre-war development in the United States is given by E. R. A. Seligman, *The Income Tax* (New York, 1911, revised edition, 1914). The history is carried through the war period by E. L. Bogart, *War Costs and Their Financing* (New York, 1921) and brought nearly up to date by C. C. Plehn, *Introduction to Public Finance* (New York, 1896; fifth edition, 1926) and H. L. Lutz, *Public Finance* (New York, 1924). A series of lectures edited by R. M. Haig, *The Federal Income Tax* (New York, 1921), is valuable for its description of the situation shortly after the end of the war. In E. R. A. Seligman, *Studies in Public Finance* (New York, 1925), an analysis of income taxes and the price level is to be found. A. W. Mellon, *Taxation: the People's Business* (New York, 1924), gives the Treasury's point of view.

The best guide for procedure is R. H. Montgomery, *Income Tax Procedure* (New York, annually). An excellent detailed comparison of the American and British income taxes has been made by H. B. Spaulding, *The Income Tax in Great Britain and the United States* (London, 1927).

CHAPTER VI

THE MODERN BRITISH INCOME TAX

The British System.—Traveling by different roads, Great Britain and the United States have reached somewhat similar policies with respect to the budgetary use of income taxes. In the British budget for 1926-27 income taxes yielded nearly one-half of the total tax revenue, a fraction only slightly below that for the United States. The basis of the tax system of Great Britain is different from that of the United States, for in Great Britain there are no provincial taxing bodies which correspond to the American states. Consequently the sources of taxation which are used by the American states are accessible to the British central government. In the second place, Great Britain has no equivalent of the constitutional difficulties which beset the American federal government in the form of the (effective) prohibition of direct taxation except by constitutional amendment. The result is a more flexible and more powerful national taxing authority in Great Britain.

The British income tax has become, in the words of Professor Seligman, "a mighty fiscal and social engine." Writing before the expansion of the tax during the World War, he continues in words which are equally applicable today: "Taking it all in all, the British income tax has become a phenomenal success, because it is recognized by the public as a loyal and well-considered effort to accom-

plish that which the people desire, and in a way which commands their sympathetic approval.”¹

History of the tax.—The long history of the British income tax has its high points in the emergencies of war. Taxes graded according to income were first imposed in Great Britain in 1798, at the instance of William Pitt, in order to meet the financial burden of the war with France.² The results in the first year were financially disappointing, but the act opened the way for a tax of 10 per cent upon incomes, imposed in the following year. In 1802, following the declaration of peace, the income tax law was repealed, but in 1803 the resumption of war caused its revival. In that year the rate was fixed at 5 per cent and the five schedules, A, B, C, D, and E, which make up the income tax of today, were used. The tax of this period remained in force until 1816, when it was abandoned. In 1842 Sir Robert Peel restored the income tax in a form which has survived repeated modifications and which remains the basis of the income tax of today. The rate of the tax was 7 pence in the pound (3 per cent) and the exemption limit was £150. In 1853, in his famous budget speech of that year, Mr. Gladstone emphasized the usefulness of the income tax as a source of war revenue, but opposed its retention as a permanent measure in times of peace. Accordingly, in the same year in which Ireland was included in the income tax scheme, Mr. Gladstone devised a plan by which the tax would gradually decline during a seven-year period and expire in 1860. The outbreak of the Crimean War disturbed this program and gave the tax a new lease of life. In 1855 and 1856 the rate was 1s. 4d. in the pound (6½ per cent), the high-

¹ E. R. A. Seligman, *The Income Tax*, rev. ed., (New York, 1914), p. 218.

² *Report of the Royal Commission on the Income Tax*, (Cmd. 615), 1920. First Instalment of the Minutes of Evidence, appendices numbers 1, 2, 3.

est point reached from the re-introduction of the tax in 1842 to the outbreak of the war in 1914.

With the return of peace and the readjustment of the country's financial affairs the rates fell to low levels, especially in 1874 and 1875, when the tax was 2*d.* in the pound (less than 1 per cent). The tax survived various proposals for repeal and underwent no important changes in structure until 1907, when the differentiation of earned and unearned incomes was effected. In 1910 the introduction of graduation by means of a supertax on the larger incomes marked a second important structural change.

During the World War the income tax was amplified and readjusted repeatedly in order to produce an ever-increasing amount of revenue. At the time of the outbreak of the war the general rate of the tax was 1*s.* 3*d.*, a rate which was modified by abatements and allowances on the one hand and the addition of supertaxes on the other. The war budget of November, 1914, increased the income and supertaxes by one third. For 1915-16 the taxes were doubled. Further increases were brought about by lowering the exemption limit from £160 to £130 and by repeatedly raising the rates. By the end of the war the standard rate had reached 6*s.* (30 per cent) and the supertax rate 4*s.* 6*d.* (22.5 per cent) making a nominal rate on the largest incomes of 52.5 per cent. After the war ended the tax was reduced, as it was in the United States, until in 1927-28 the standard rate was 4*s.* in the pound and the maximum supertax rate 6*s.*, making a total nominal rate of 10*s.*, or 50 per cent, on the largest incomes.

Yield of the tax.—The following table shows the revenue from the income tax throughout its history. The years of largest yield are those in which increased rates were in force in order to meet the various emergencies.

The table also shows clearly the increasing reliance upon the income tax in years of peace.

YIELD OF BRITISH INCOME TAXES ³

Year	Total Tax Receipts in Thousands of Pounds	Receipts from Income Tax	
		Thousands of Pounds	Per Cent of Tax Receipts
1842-43	50,299	581	1.2
1852-53	54,014	5,655	10.5
1862-63	63,900	10,567	16.5
1872-73	65,903	7,500	11.4
1882-83	73,128	11,900	16.3
1892-93	74,800	13,470	18.0
1902-03	139,700	38,800	27.8
1912-13	154,753	41,206	26.6
1922-23	762,124	314,375	41.2

No other income tax affords so long an uninterrupted history. In spite of the increased use of the income tax during the Crimean War and the Boer War, a long view of the development of the tax makes the rate of increase in the per cent of tax receipts furnished by the income tax seem steady, gradual and inevitable. In the middle of the nineteenth century the income tax was furnishing one-tenth of the tax revenue; at the end of the century from a fifth to a fourth; and after the World War more than two-fifths. In absolute figures the growth reflects the enlarged money incomes of the first country to become industrialized. The moderate yield of £5,655,000 (\$28,000,000) in the middle of the nineteenth century is re-

³ The percentages are computed from figures taken from the *Report of the Royal Commission on the Income Tax*, Cmd. 615 (London, 1920), First Instalment of the Minutes of Evidence, Appendix 3, and *Statistical Abstract for the United Kingdom* (London, 1854 and succeeding years).

placed by £58,800,000 (\$190,000,000) at the opening of the present century and £314,375,000 (\$1,500,000,000) in the post-war period.

Expansion since 1914.—The table given below shows in more detail the expansion of the tax during the war years and the slight subsequent contraction.

INCOME TAX YIELD SINCE 1914

Year	Total Tax Receipts in Thousands of Pounds	Receipts from Income Tax	
		Thousands of Pounds	Per Cent of Tax Receipts
1913-14	163,036	43,902	26.9
1914-15	190,054	59,424	31.3
1915-16	290,873	112,373	38.6
1916-17	516,513	186,538	36.1
1917-18	614,283	214,857	35.0
1918-19	786,803	257,708	32.8
1919-20	1,000,887	317,030	31.7
1920-21	1,024,967	340,665	33.2
1921-22	842,084	334,934	39.8
1922-23	762,124	314,375	41.2
1923-24	702,198	271,433	38.7
1924-25	676,774	275,456	40.7
1925-26	665,112	258,065	38.8
1926-27	663,933	300,627	45.1
1927-28	690,780	309,000	44.7

The figures show that the peak of the income tax yield was reached in 1920-21, with £340,000,000, or about \$1,700,000,000. This was a sum which had never before been approached in Great Britain. The highest percentage of total revenue furnished, however, came later: in 1926-27, the income tax yielded over 45 per cent of the

total tax revenue. By this time other taxes had been reduced, but the country was not yet ready to relinquish its war-time dependence upon the income tax.

Elasticity of income taxes.—The high degree of elasticity of income taxes may be illustrated by the use of index numbers for British income taxes in the course of the World War.⁴

	—Index Numbers—	
	<i>Income Tax</i>	<i>Death Duties</i>
1913-14	100	100
1914-15	147	104
1915-16	273	115
1916-17	436	115
1917-18	511	118
1918-19	619	111
1919-20	760	149

The income tax was multiplied more than seven times within a comparatively short period, although the original yield was fairly large and was even regarded as a maximum by a section of British opinion. No other tax responded so successfully to the demands made upon it. Death duties, representing the extreme of inelasticity, are given in order to furnish a contrast.

The schedules.—The British income tax of modern times retains the five schedules first used in 1803, as follows:

- A. Profits from the ownership of land and buildings;
- B. Profits from the occupation of land;
- C. Profits from investments in public funds;
- D. Profits from trades, professions and employments.
- E. Profits from the emoluments of public offices.

The tax is a graduated and differentiated tax. *Graduation* is effected in two ways: downwards, by reduction of

⁴ The index numbers are found in H. F. Grady, *British War Finance* (New York, 1927), p. 79.

the standard (or normal) rate to lower graduated rates for small incomes; and upwards, by means of an additional tax (supertax) applicable to incomes of more than £2500. *Differentiation* in favor of earned income is effected by the application to such earned income of a scale of graduated rates which are throughout lower than the corresponding rates applicable to unearned income.

Collection at the source.—Wherever it is possible to do so, the income tax is obtained by deducting it before the income reaches the person to whom it belongs. This is the system of deduction “at the source” which is held by many students of taxation to be one of the reasons for the success of the British income tax. Corporations, for example, act as withholding agents for the Government, and deduct income taxes at the standard rate from dividends paid out.

It is not always practicable to tax income at the source, and in such cases it is necessary to use “direct assessment” on the recipient of the income (that is, the method in use in the United States).

The principal items of income which form the subject of direct assessment are:

1. The income under Schedule D (profits from trades, professions and employments);
2. The income under Schedule B (profits from the occupation of land).
3. Income from foreign securities and possessions.
4. Income from certain loans.

Comparison of the taxes.—A detailed comparison of the British and the American income taxes is not possible within the scope of the present volume. An excellent comparative study of the two taxes as they stood in 1926 is now available in Dr. H. B. Spaulding’s *The Income Tax in Great Britain and the United States* (London,

1927). The author notes that while the rates of surtax in the United States have in some years gone much higher than the British supertax rates, the standard income tax rates in Great Britain have always been a great deal higher than the American normal tax rates. "Under the present rates, British taxpayers pay vastly greater amounts of income tax than Americans with the same amounts of income."⁵

The following tables give a comparison of the tax rates of Great Britain and the United States in the specified years. It should be noted that the assessment year in Great Britain ends on April 5th while in the United States it coincides with the calendar year:

Normal or Standard Tax Rates (in Per Cents)

	1913-14 or 1914	1920-21 or 1921	1925-26 or 1926
Great Britain.....	5.83	30	20
United States.....	1	12	5

Surtax or Supertax Rates—Maxima (in Per Cents)

Great Britain.....	2.50	30	30
United States.....	6	65	20

Total Nominal Rates (in Per Cents)

Great Britain.....	8.33	60	50
United States.....	7	77	25

The two countries had approximately the same maximum rates before the World War, but Great Britain was already making use of her policy of imposing heavy normal rates, while the American normal rate was lower and the surtax higher. The United States imposed higher surtaxes during the war, and reached a higher total of normal and surtax rates combined. After the war, however, reductions were made swiftly in the American tax, while the British rates remained for a considerable time

⁵ Spaulding, *Op. cit.*, p. 45.

at the 50 per cent nominal total. The higher rate of taxation was believed to be required in Great Britain on account of the heavy post-war expenditures, the largest of which was the service of the internal national debt.

Post-war development of progression.—The comparative rates given above also illustrate, with a degree of similarity for the two countries which is remarkable, the increased use of the device of progression for which war-time emergencies were responsible. The total nominal rates, of 7, and 8.33 per cent respectively, are obviously the maximum rates which pre-war fiscal theory authorized for normal times, even in countries in which fiscal science was fairly well advanced.

By 1920 and 1921, the year in which the full force of the new taxation was felt, progression had developed to an unprecedented extent. The full rate for taxes on income in the United States was 77 per cent, and in Great Britain 60 per cent. To critics of pre-war times these rates would probably have seemed the equivalent of confiscation.

Eight years after the end of the war, in 1926, the British total nominal rates had contracted only to 50 per cent, and the American rates had dropped to a maximum of 25 per cent. Even these rates are several times pre-war rates.

Taxpayers' burdens.—The comparison of normal and surtax rates at various dates given above shows Great Britain's tendency to tax low incomes heavily and the United States' custom of taxing them lightly. There is a more elaborate system of abatements in Great Britain, so that in effect there is graduation downward as well as graduation upward from the standard rate; but even when all deductions are allowed for, the contribution of the British income taxpayer of small means is greater than that of the American in corresponding circumstances.

The following examples afford a comparison, in approximate figures, of the income taxpayer's contribution in Great Britain and the United States. The taxpayer selected is one who is married, with three children, whose income is wholly earned:

INCOME TAX AS PER CENT OF TOTAL INCOME		
<i>Total</i>	<i>United States</i>	<i>Great Britain</i>
<i>Income</i>	1926	1925-26
\$2,000	..	5
20,000	3	20
1,000,000	24	49

An example given in the discussion of the tax in the United States illustrates the contrast even more forcefully: An American with an income of \$5000 which is earned (as distinguished from "unearned" or investment income), married, with three children, paid a little more than \$4 income tax in 1927. An Englishman in the same circumstances paid about \$400, or one hundred times as much.

Further comparisons.—In the comparative study referred to above the author concludes that the American method of changing the revenue act frequently has worked well:⁶

The enactment of an entirely new income tax statute every few years has great advantages. It keeps the law of income tax in one convenient statute; it permits of minor improvements in drafting without the necessity for a separate Act; and it frees the legislators from the inertia inevitable where an entirely new income tax Act occurs perhaps only once in a century. The result is that the United States income tax law is a modern, carefully drafted and logically arranged statute, whereas the British law is antiquated, ill-arranged, and obscure and ambiguous in its provisions.

Elsewhere the same writer suggests that an income tax law may suffer from changes made too readily:⁷

⁶ *Ibid.*, p. 14.

⁷ *Ibid.*, p. 296.

If the British are slow to change the income tax, the Americans are sometimes apt to make important changes without sufficient deliberation. They are just as quick, however, to abandon unsuccessful innovations, and this method of trial and error does provide the legislators with useful lessons. The result has been a workable, coherent and intelligible income tax statute.

Factors in success.—Professor Seligman's analysis of the features in the British income tax which were held to be responsible for its success in becoming a "mighty fiscal and social engine," even before 1914, were in part as follows:⁸

First, the happy blending of regard for local interests and for fiscal productiveness . . .

Second, the ingenious system of the utilization of experts. . . .

Third, the absence of inquisitorial procedure . . .

Fourth, the system of stoppage at source. This is perhaps the chief cause of the great success of the English income tax . . .

Fifth, the studied moderation of the rate . . .

Sixth, the introduction of differentiation . . .

Seventh, the adoption of a system of progression . . .

Justice of the tax.—The fairness of taxation by this method was not fully established in the popular mind until money incomes, especially those derived from salaried work and from intangibles, began to approach their present size. A well-known British authority wrote as follows concerning the tax as it stood before the World War:⁹

The method of collection is simple and economic, and dividends on investments pay in bulk at the source; the tax is highly productive, and it can be easily modified to give elasticity of revenue. The tax satisfies fairly the canons of Adam Smith; it is considered equitable as forming only part of a system; further it grants immunity to small incomes, and is graduated so as to ease the pressure on limited incomes. There is no doubt, however, that it presses with greatest severity on the lower grades of professional earnings and salaries . . .

⁸ E. R. A. Seligman, *The Income Tax*, Rev. ed. (New York, 1914), pp. 214 *et seq.*

⁹ G. Armitage-Smith, *Principles and Methods of Taxation*, 7th ed., (London, 1919), pp. 65-6.

Regarded singly, the income tax can never be wholly equitable. The ability of individuals to pay is modified by many circumstances—age, health, family, permanence or precariousness of income, and the need to make provision for the future—all of which are incommensurable. The real test of ability to pay is capacity to spend, and of this there can be no adequate common measure. The incidence of the income-tax is upon the payer, whether his revenue consists of rent, profits, or wages, and it cannot be directly shifted . . .

The income-tax is very easily manipulated by an alteration in the rate to meet exigencies, and its yield can be approximately estimated.

The Committee on National Debt and Taxation which reported to the British Parliament in 1927 tried to find and formulate the effects of the income tax upon work and enterprise.¹⁰ The Committee concluded that employees and professional men were not appreciably affected by the tax. "It does not deter them from effort in such a way as to effect materially their income, that is to say, their potential standards of living and saving," the Committee concluded.

With respect to the savings of the general public (as distinct from persons engaged in business of their own), it was stated that the effect on incomes of less than \$2500 was not appreciable; from \$2500 to \$10,000 it seemed to be a considerable deterrent, and above \$10,000 it was more serious.

The small trader is believed to be handicapped in his ability to save, under the post-war British income tax system:

The extent of the damage depends very much upon the efficiency of the individual. Where the business has little push and little power for growth, it will not be great. The effect of the tax levied upon the inefficient business man is, from the point of view of the community, less directly harmful than that of the tax on members of the public who invest with reasonable sagacity. On the other hand, small businesses capable of expansion suffer a real hindrance, even after allowance has been made for benefits of tax revenue, so far as applied in service of the debt.

¹⁰ *Report of the Committee on National Debt and Taxation* (Cmd. 2800), 1927, pp. 130, 156, 157.

The effect on enterprise.—With respect to the disputed effect of high income tax upon the disposition of the able members of a community to carry on large scale enterprise, the Committee on National Debt and Taxation came to a logically inevitable conclusion, namely, that income taxation does not affect the will to work. The Board of Inland Revenue furnished statistics showing that the increase in taxation apparently had no influence on the proportions of earned income or on the relative number of individuals part of whose income was earned. Even aside from the statistical evidence, there was reason to believe that the common fear of the deterrent effect of high income tax and supertax rates was unjustified. Income taxes have always been feared and their effects always exaggerated; and the post-war years were not exceptional in this respect. There may have been some injury done to the export trader, and there may have been some instances of the transfer of residents abroad. Beyond this nothing can be proved.

It was stated that in the opinion of the Colwyn Committee the income tax is not passed directly into the price of goods and services. Savings and enterprise are undoubtedly diminished to some extent, as a result of the physical transfer, under progressive taxation, from the larger to the smaller income. Some tendency to increase prices probably exists. On the whole, however, it seemed certain that the high level of post-war taxation had nothing approaching a commensurate effect on the level of prices.

Significance of the tax.—The British income tax of the present generation is, in the words quoted by the Royal Commission on the Income Tax of 1919, "a financial instrument of extraordinary complexity, subtlety, and power." Its capacity for almost unlimited expansion was never fully demonstrated until the emergencies of the last

years of the World War and the first years of peace forced fresh experimentation with the existing mechanism. Its extensive and continued use represents a highly developed stage of fiscal science.

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Two good accounts of the history of the British income tax are accessible: E. R. A. Seligman, *The Income Tax* (New York, Rev. ed., 1914), and that contained in an appendix of the *Report of the Royal Commission on the Income Tax*, Cmd. 615 (London, 1920), *First Instalment of the Minutes of Evidence*. An excellent description of the modern British tax, with useful comparisons with the tax on the United States, is given by H. B. Spaulding, *The Income Tax in Great Britain and the United States* (London, 1927).

The British income tax is given critical and analytical treatment in the Report of the "Colwyn Committee," *Report of the Committee on National Debt and Taxation*, Cmd. 2800 (London, 1927). The same report contains useful figures, of the kind which may be found also in the annual *Statistical Abstracts for the United Kingdom*.

A critical account of the income tax before 1914 is found in G. Armitage-Smith, *Principles and Methods of Taxation* (London, 7th ed., 1919). Full details of war-time changes are given in H. F. Grady, *British War Finance* (New York, 1927). An historical account which is inadequate, in the light of the later importance of the tax, is given by S. Dowell, *History of Taxation and Taxes in England* (London, 1888). Nelson's *Income Tax Guide* (London, annually) contains details for the taxpayer. An excellent summary of the contemporary income tax is included in M. B. Carroll, *Taxation of Business in Great Britain* (U. S. Department of Commerce, Washington, 1928).

CHAPTER VII

CONTINENTAL AND CANADIAN INCOME TAXES

European contrasts.—A considerable gulf lies between the income tax of the United States and the income taxes of the principal European countries. The income tax in the United States is by far the most important revenue-yielder, as a table in an earlier chapter demonstrated. Several of the European taxes are older, but no one of them approaches the productivity of the American tax. On the other hand, the European taxes are heavier burdens upon the citizen of small or moderate means.

The exemption of all except the well-to-do from the income tax in the United States, in contrast to the policy of European countries, was noted as early as 1925 by the Secretary of the Treasury. The existing income taxes were described as follows, with respect to a married taxpayer without dependents: ¹

INCOME TAXES PAYABLE

<i>Income of Taxpayer</i>	<i>Italy</i>	<i>Belgium</i>	<i>France</i>	<i>England</i>	<i>United States</i>
\$1000	\$189.21	\$29.15	\$48.99		
2000	392.18	107.70	174.55	\$67.50	
3000	599.30	238.45	348.00	202.50	\$7.50
4000	812.18	413.35	569.40	382.50	22.50
5000	1025.06	619.90	838.75	787.50	37.50

¹ *Report of the Secretary of the Treasury, 1925, p. 4.*

The American tax is shown to be negligible in comparison with other income taxes in existence at that time. The married man with an income of \$2000 was paying no income tax in the United States, but in other countries such a person was paying an amount varying from \$67.50 to almost \$400 (in Italy). The married man with an income of \$5000 was paying a very small tax in the United States (\$37.50), while he was paying from \$600 to \$1000 in the other countries described. For this class of taxpayers taxation in Italy began with incomes of \$40, in Belgium with incomes of \$225, in France with incomes of \$650, in England with incomes of \$1125, and in the United States with incomes of \$2500 (\$3500 under the succeeding revenue act). It was said that if Italy, the country with the broadest base for the income tax, should exempt the low incomes to which the tax did not apply in the United States, she would lose 99 per cent of her income tax revenue. At this time, however, the United States was moving in the direction of restricting the income tax to an even smaller class.

The modern French tax.—The modern French income tax, like the tax in the United States, represents a pre-war device which was in its infancy when the war broke out, but which reached unexpected dimensions in the war years. Neither tax can now shrink to its pre-war size. The French tax, however, occupies a less important position in the revenue system than the American tax.

The French general income tax (*l'impôt général sur le revenu global*) was imposed by a law of July 15, 1914. The operation of the provisions of the law was twice postponed, and it finally became effective at the beginning of 1916 by virtue of a law passed on December 29, 1915.

In July, 1917, the structure of the tax was changed by the addition of the scheduled taxes (*les impôts cédulaires*) to the global tax. The following schedules were defined:

1. Profits from commerce and industry.
2. Profits from agriculture.
3. Income from land.
4. Income from liberal professions.
5. Income from salaries, wages, and pensions.

These taxes replaced three of "the four old ladies" (*les quatre vieilles*) of the Constituent Assembly. Of these four, the real estate tax (*contribution foncière*), the business tax (*patentes*), the door and window tax (*contribution des portes et fenêtres*), and the personal and personal property tax (*contribution personnelle et mobilière*), only the real estate tax remained.

Rates of the taxes.—As originally passed in 1914 the general income tax law imposed a tax of 2 per cent upon income of more than 5000 francs. This tax was raised to 10 per cent by a law passed on December 30, 1916. In July, 1917, when the scheduled taxes were introduced, the tax on total income was raised to 12.5 per cent. In June, 1918, the general income tax was made progressive, with a maximum rate of 20 per cent.

Subsequent changes were numerous. In 1923 the rates in the special income tax categories were raised. In March, 1924, the Government introduced the "double decime" or 20 per cent increase in all taxes to meet the national fiscal emergency. By a law passed on December 4, 1925, the scheduled taxes were increased by about 50 per cent and the rates of the general income tax by 20 per cent. In the course of the fiscal crisis of 1926 further laws were passed, under which the tax on commercial and industrial profits was increased, the general income tax reduced, and several other changes made.

Recommendations for reform.—The Committee of Experts which reported in 1926 on necessary changes in the French fiscal system, in order that currency instability

might be remedied, gave particular attention to the income tax. The Committee considered that the general income tax was not yielding in proportion to its nominal scales, but thought that the establishment of a dividend warrant system would be an impossible burden for the tax authorities and an annoyance to holders of state securities who were not liable to the income tax.

The Committee recommended a reduction in the rate of the general income tax (as stated above) and suggested that reforms should be made in the department which administered the tax. It repeated the plea for better collection of the tax on agricultural income, a task which has been difficult of accomplishment at all stages of the history of French income taxes. Other minor reforms were suggested. Nearly all of the Committee's recommendations with respect to income taxes were adopted and became a part of the tax laws passed in August, 1926.

Income taxes in 1926.—After the financial reforms of 1926 the maximum French income tax rates stood as follows:

	<i>Per Cent</i>
Profits from commerce and industry.....	15
Profits from agriculture.....	12
Income from land.....	18
Income from liberal professions.....	12
Salaries, wages and pensions.....	12
General income tax (global tax).....	30

The maximum general income tax rate of 30 per cent represents a decrease from the 60 per cent maximum of the earlier law, but the rate became 37.5 per cent for bachelors and 33 per cent for childless married persons.

Taxes payable.—The taxes due in practice upon the income of a salaried man, for example, have been worked out as follows:² Such a person is liable to the scheduled

² Foreign Policy Association, *Information Service*, vol. 4, no. 3 (13 April 1928), pp. 43 *et seq.*

tax on salaries, wages and pensions and also to the general income tax. Under the tax on salaries the minimum salary subject to taxation, according to the law of 1926, was 7000 francs (\$280) a year. An additional exemption of 3000 francs was allowed to married men whose wives were not earning money, and an allowance of 2000 francs was permitted for each child or other dependent. A married man with three children was therefore allowed 16,000 francs (\$640) free of taxation. A progressive scale was then imposed. The taxes payable were as follows:

<i>Taxable Income</i>	<i>Tax Due</i>
Francs, 10,000 (\$ 400)	Francs, 90 (\$ 3.60)
Francs, 20,000 (\$ 800)	Francs, 660 (\$ 26.40)
Francs, 30,000 (\$1200)	Francs, 1560 (\$ 62.40)
Francs, 40,000 (\$1600)	Francs, 2490 (\$ 99.60)
Francs, 50,000 (\$2000)	Francs, 3690 (\$147.60)

The general income tax.—In addition, a general income tax was imposed on income in any of the various categories. The amounts due were as follows:

<i>Taxable Income</i>	<i>Tax Due</i>
Francs, 10,000 (\$ 400)	Francs, 36 (\$ 1.44)
Francs, 20,000 (\$ 800)	Francs, 156 (\$ 6.64)
Francs, 30,000 (\$1200)	Francs, 396 (\$15.84)
Francs, 40,000 (\$1600)	Francs, 756 (\$30.24)
Francs, 50,000 (\$2000)	Francs, 1236 (\$49.44)

As a result of the imposition of the two taxes, the salaried man with a taxable income of \$2000 was liable for a total income tax of \$197.04. The business man and the professional man paid approximately the same amounts.

Yield of the tax.—The yield of the French income taxes combined, together with the per cent of the revenue which they have yielded, is shown in the table on page 98.

The table shows the continued small yield of the French income taxes. In the first 12 years of its existence

YIELD OF FRENCH INCOME TAXES ³

Year	Total Revenue (Millions of Francs)	Yield of Income Taxes	
		Millions of Francs	Per Cent of Revenue
1916	4,640	51	1.0
1917	5,811	269	4.6
1918	6,986	904	12.9
1919	10,176	936	9.2
1920	18,176	1326	7.3
1921	21,217	2820	13.3
1922	21,383	2632	12.3
1923	23,495	3754	15.9
1924	27,574	5464	19.8
	<i>Tax Revenue</i>		
1925	28,057	5842	20.8
1926	33,329	6472	19.4
1927	36,515	7572	20.7

its produce has never risen above a fifth of the total tax revenue, and it is only in the last four years that it has approached that proportion. This modest fraction is in strong contrast with the figure of 46 per cent for Great Britain and 57 per cent for the United States in 1926-27. Until 1923 the French income taxes had never produced as much as a seventh of the tax revenue. The percentage figures are the more useful index of the relative importance of the French income tax, as allowance for currency depreciation must be made in using the yield as given in francs in the second and third columns.

One of the factors which limits the yield of French income taxes is the low productivity of the agricultural taxes. The percentages for each class stood as follows in the budget for 1926:

³ Great Britain, *Department of Overseas Trade, Report on the Economic and Industrial Conditions in France, 1925-26* (London, 1927), pp. 36, 37; League of Nations, *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), pp. 200, 201.

<i>All Income Taxes</i>	<i>Per Cent of Total Income Taxes, 1926</i>
Land tax.....	14.0
Tax on industrial and commercial profits....	33.2
Tax on agricultural profits.....	1.2
Tax on salaries, wages, etc.....	5.1
Tax on income from non-commercial professions.....	2.0
General income tax.....	44.5
	100

While taxes from agricultural profits furnish only about 1 per cent of the revenue from the income tax, they are apparently an important part of the total national income. The urban taxpayers recognize this fact, and resent the extent to which their own particular profits are drawn upon, while, as they maintain, agriculture in France is almost wholly untaxed. It is maintained that the yield of the income taxes might be considerably increased if a way could be found to tax agricultural income.

There is, however, probably another impediment to the extension of the French income taxes, that which lies in a dislike of emphasis on direct taxation. While this dislike was partially overcome during the war years, it still persists. An approach to the British or American reliance upon the income tax in the near future is improbable.

The German imperial tax.—An income tax was an important part of the revenue system of Prussia from 1891 to the outbreak of the World War, but a German imperial income tax was levied for the first time at the end of 1913. This was a tax at a progressive rate of 1 to 8 per cent. The maximum rate was almost identical with those of the United States and Great Britain at that time, and its level represents the maximum of progression according to the fiscal theory of the time. After the War, in the period of the falling mark, the problem of deciding upon a suitable scale for the income tax was a difficult one.

The scale for 1922 ran from 10 per cent on the lowest taxable incomes to 60 per cent on the largest. The law provided for supplements to these taxes so that the returns from them might to some extent catch up to the decreasing purchasing power of the mark.

It was impossible to make an assessment for the income tax in 1923, and there was made instead one final payment early in 1924. Nevertheless the income tax could not regain its former importance. The Dawes Committee, reporting in 1924 on the financial situation in Germany, stated that direct taxes had fallen behind and that the income tax was partly responsible.

The Dawes Committee's analysis of the income tax situation was as follows:⁴

We have been unable to escape the conclusion that the wealthier classes of Germany have, in recent years, not been reached properly by the system of taxation in force, either to an extent which the taxation of the working classes would justify, or to an extent comparable with the burden upon the wealthier classes in other countries. . . .

Direct taxes, such as the income tax, are necessarily assessed for completed periods and during a time of rapidly rising prices the burden of any particular year, based upon any previous year, is small relatively to the profits of the year itself. . . . It was not until the inflation movement was well advanced in Germany that any serious effort was made to combat this evil. Although the rates of income tax according to the nominal scales rose nearly to 60 per cent on the highest incomes, statistics of cases furnished to us by the German Government show that, in effect, even in the year 1920, the burden of actual tax (measured in gold) on the higher incomes, instead of being 50 to 60 per cent, was only half those rates upon the income of the year (measured in gold). . . .

The whole system of direct taxation went to pieces in 1923 and, for 1924, the income tax, as is easily understood, is in abeyance. . . . [The] expedients do not reassure us upon the general question of the taxation of the wealthy classes, and, in our judgment, if they desire the Allies and their own working classes to realize their good faith in this matter, the German Government should publish at an early date their definite intentions with regard to the scales of income taxation that are to be applied during 1925-26 to the actual profits of 1924-25 for the final adjustment of the fiscal year 1924-25.

⁴ *Report of the First Committee of Experts* (Paris, 1924), Part II.

Rates of the tax.—The Government attempted to meet the recommendations made by the Dawes Committee, but fundamental reform was not reached until August, 1925. According to a law which became effective at that time the following rates were made applicable to incomes:

<i>Taxable Income</i> (<i>Reichmarks</i>)	<i>Rate</i> <i>Per Cent</i>	<i>Taxable Income</i> (<i>Reichmarks</i>)	<i>Rate</i> <i>Per Cent</i>
First 8000.....	10	Next 8000.....	25
Next 4000.....	12.5	Next 18,000.....	30
Next 4000.....	15	Next 34,000.....	35
Next 4000.....	20	Further amounts (i.e., over \$20,000).....	40

Certain abatements were allowed for small incomes, wife and minor children. In the case of wages or salaries, 10 per cent was paid by the employer after the deduction of family allowances. The employer then deducted the tax from the wages or salary. If the income of the individual exceeded 8000 marks (\$2000) he must declare it and pay the balance of the tax due himself.

Yield.—The yield of the German tax is shown in the table on page 102.

The table shows that both before and after the introduction of the Dawes Plan reforms Germany made good use of the income tax. In 1921–22 nearly two-fifths of the tax revenue came from that source. In this respect Germany was not perceptibly behind Great Britain, the classic land of the income tax, for Great Britain also drew two-fifths of her tax receipts from that source in the corresponding fiscal year. The yield of the income tax in Germany has been kept remarkably stable in the five years since the Dawes Plan was introduced. The figures given in the table show that throughout the five-year period the income tax has consistently supplied from one-third to two-fifths of the tax revenue.

This tax is regarded as onerous and unfair by many

YIELD OF GERMAN INCOME AND PROFITS TAXES ⁵

Year	Total Tax Revenue (Millions of Marks)	Yield of Income and Profits Taxes	
		Millions of Marks	Per Cent of Tax Revenue
1920-21	54,656	12,900	23.6
1921-22	81,920	31,281	38.2
1922-23	1,529,535	539,547	35.3
1923-24	Not available	Not available	Not available
1924-25	7,322	2,527	34.5
1925-26	6,856	2,440	35.6
1926-27 ⁶	6,685	2,350	35.2
1927-28 ⁶	7,750	3,020	38.1
1928-29 ⁶	8,692	3,450	39.8

taxpayers in Germany, on account of its severe weight upon low incomes. It is said not to be a tax upon ability to pay (at the rates which were in force in 1926 and 1927), but a measure which, being universal in its application, operates as an indirect tax, since it must be transferred to the price of commodities. The workman, with 10 per cent of his wages taken as income tax and deducted at the source, is said to pass on the tax through increased wages, and, ultimately, enhanced retail prices. The accuracy and fairness of such criticisms can be tested only after the tax has been in operation a longer time.

Italian income taxes.—The income taxes of Italy before the war consisted of taxes on income from land, income from buildings, and income from personal property, a category which included income from trades, professions and investments. These taxes yielded about a fourth of the tax revenue in 1921-22. In 1924 the

⁵ League of Nations, *Memorandum on Public Finance, 1922* (Geneva, 1923), p. 62; *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), p. 229; *Report of the Agent General for Reparation Payments* (Berlin, 1927), p. 59.

⁶ Estimated.

Fascist Government announced a change of policy which was to take effect on January 1, 1925. All of the income taxes with the exception of three traditional groups, income from land, income from buildings, and income from personal property, were eliminated. The second important part of the new policy, in its relation to income taxes, was the introduction of a complementary tax on the total income of each taxpayer. The rates established under the decree of 1924 were as follows:

Income from land.....	10 per cent
Income from buildings.....	10 per cent
Income from personal property.....	11 to 25.5 per cent (8 to 20 per cent by 1929)
Complementary income tax.....	1 to 10 per cent

The third class, income from personal property (*ricchezza mobile*) was the group which included the principal industrial incomes, earned and unearned. It was subdivided into schedules, to which different rates were applied.

Changes in rates.—Changes in the rates of income tax may be summarized as follows:⁷

SCHEDULE OF INCOME TAX RATES IN ITALY

Category of Income	Rates in Effect		
	1925-26	1927-28	After Jan. 1, 1929
A. Unearned income from capital	24	22	20
B. Income partly earned and partly unearned.....	18	16	14
C1. Variable earned income.....	16	14	12
C2. Fixed earned income.....	12	11	10
D. Earned income.....	10	9	8

⁷ Adapted from C. E. McGuire, *Italy's Economic Position* (New York, 1926), p. 434.

The rates scheduled to be put into effect on January 1, 1929, appear at first glance to be somewhat similar to those in force in the United States in 1928. As Italy stands at the other extreme from the United States, however, in the taxation of small incomes, the similarity is only superficial. The Italian rates are in fact moderately high rates applied to low income.

Yield of the tax.—The table given below, showing the yield of the income taxes since the war, before and after the change of government, indicates that while the administrative reforms may have been valuable, the produce of the tax has not appreciably changed. Few countries show an income tax of as great stability as the Italian tax. It is noticeable that the relative importance of the tax is greater than that of the French income tax. The Italian government of the period has made little attempt to emphasize its reliance upon direct taxation and upon the income tax, but the receipts indicate that the tax has the same entrenched position that it had a decade before.

YIELD OF ITALIAN INCOME TAXES ⁸

Year	Total Tax Revenue (Millions of Lire)	Yield of Income Taxes	
		Millions of Lire	Per Cent of Tax Revenue
1921-22	9,155	2169	23.7
.....			
1923-24	14,962	3479	23.3
1924-25	15,800	3706	23.5
1925-26 ⁹	13,798	3482	25.2
1926-27 ⁹	15,590	3852	24.1

⁸ League of Nations, *Memorandum on Public Finance*, 1922 (Geneva, 1923), p. 90; *Memorandum on Public Finance*, 1922-26 (Geneva, 1927), pp. 305-306.

⁹ Estimated.

The Canadian income tax.—The income tax in Canada was established under a war income tax act passed in 1917. The early laws had the normal and surtax structure characteristic of the income tax law of the United States. Under the Act of 1924 the rates of normal tax were 4 to 8 per cent, and the surtax rates 1 to 65 per cent, giving a total nominal maximum rate of 73 per cent.

Important amendments were made in 1926, and the tax became a simpler graduated tax of 1 to 50 per cent. The maximum was reached at a net income of more than \$500,000. The family exemptions under that act were \$1500 for single persons, \$3000 for married persons, householders, and others with dependents, and \$500 for each dependent child under 18.

In 1927 a flat reduction of 10 per cent on all income tax rates was made applicable to all 1926 income. In 1928 a further reduction of 10 per cent was made, and at the same time the sales tax was cut from 4 per cent to 3. Nevertheless the objection was frequently made in Canada that the rates were still higher than those in force in the United States, and that the economic position of Canada did not require the higher rates.

Under the Act of 1926 corporations paid a tax of 9 per cent on income exceeding \$2000. This was a reduction of 1 per cent from the rate imposed by the preceding act.

Agitation for repeal.—At the beginning of 1928 the Canadian income tax had still failed to achieve for itself the security of position which the British income tax and the income tax of the United States had reached. Commercial organizations in the country carried on for several years agitations for complete repeal, and, although the Montreal Board of Trade passed a resolution stating that "while all reduction of taxation is desirable, the tendency should be to make reductions in indirect taxes and par-

ticularly the sales tax before further reductions in income-tax are made," the movement had a certain popularity. On the other hand the agrarian interests of western Canada appeared to be practically united in favor of retention of the tax.

The arguments most frequently given by the boards of trade which were working for repeal were the fact that the income tax affected only 20 per cent of the population, and the contention that it lent itself to evasion by all classes affected except the salaried class.

The yield of the Canadian tax was \$57,000,000, or 17.4 per cent of the total tax revenue in 1925-26, and \$48,000,000, or 14.0 per cent of the tax revenue, in 1926-27.¹⁰ This is absolutely and relatively a small amount, especially in view of the high rates, which reflect the earlier high rates in the United States. Low productivity of the income tax is a natural phenomenon in a new country which is as yet a debtor country. Money incomes are low, relatively to the older commercial countries. Such a country has large and influential agricultural interests, which are not likely to permit the imposition of such income taxes as will materially injure them. In spite of the Anglo-Saxon fiscal tradition which Canada undoubtedly has (a tradition which is probably dormant in the early years of economic life), Canada relies upon an indirect tax, the sales tax, for considerably more of her revenue than she receives from the income tax.

Income taxation in Soviet Russia.—The taxation of income appeared in Soviet Russia after the New Economic Policy of 1921 had produced the desired effect in reintroducing private trading into the territory of the Soviet Union. The income tax was announced in a decree dated November 16, 1922. In its form it was not far different from the income taxes of other countries, except that

¹⁰ *Commerce Yearbook*, 1926 (Washington, 1927), vol. II, p. 114.

allowances for dependents were not mentioned. Those liable to the tax were "town citizens" and associations which derived income from the following sources:

1. Trade, industry or credit societies (in whatever capacity), and the professions and other specified occupations.
2. The ownership or leasing of urban property.
3. Money capital, interest, and dividend-bearing scrip.
4. Specified professions.
5. Salaries above the scale fixed by special regulation.

The total income from these sources was taxable, irrespective of whether it was consumed, invested, or put into enterprise.

Rates of taxation.—A progressive scale was adopted which resembled the surtax scale in use in the United States, except that the rates were stated in "tax units" adjustable to a depreciating currency instead of in percentages. The legal minimum of non-taxable income was graded according to the size of the city in which the taxpayer lived. The income tax rates in Soviet Russia in 1927 varied from .7 per cent to 45 per cent, according to the size of the income and whether it was earned or unearned. The minimum exemptions for the cost of living varied with the locality, as under the original law. The number of households which paid income tax in 1925-26 was 2,300,000, but subsequent changes in the law and its administration reduced the number to about 1,300,000. Taking into account the smaller population in the United States, the proportion of Americans who are income taxpayers would lie between the two figures for Russia.

Yield of income taxes.—The income tax in Soviet Russia has become of considerable importance. The figures for the last two available years are as follows:¹¹

¹¹ *Economic Statistics of the Soviet Union* (New York, 1928), p. 45.

SOVIET UNION INDUSTRIAL AND INCOME TAXES

Year	Total Tax Revenue (Millions of Rubles)	Yield of Industrial and Income Taxes	
		Millions of Rubles	Per Cent of Tax Revenue
1926-27	2467	538	21.4
1927-28	2828	604	21.4

The 21.4 per cent of the tax revenue indicated by the Soviet Union budget figures as the proportion furnished by the income tax in 1926-27 and estimated to be returned in 1927-28 is a large figure. It is a higher percentage than the income tax percentage for either France or Canada. It gives an indication of the extent to which the original fiscal policy of the Soviet Government was modified during the emergencies of its first decade of existence.

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General financial information, including sections in the income tax, may be found in G. Peel, *The Financial Crisis of France* (London, 1925), and C. E. McGuire, *Italy's International Economic Position* (New York, 1926).

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Official reports concerned primarily with commerce which also furnish information concerning income taxes of recent years are the United States Department of Commerce, *Commerce Yearbook*, 1926, Vol. II (Washington, 1927), and the British Department of Overseas Trade *Reports on Economic and Financial Conditions*, which appear approximately annually for each of the important countries.

The only good history of the income tax in the principal countries is E. R. A. Seligman, *The Income Tax* (New York, 1911; second edition, 1914).

CHAPTER VIII

THE GROWTH OF SALES TAXES

Striking growth of sales taxes.—The introduction of sales or turnover taxes into the revenue systems of the principal industrial countries, with the exception of the United States and Great Britain, has been the most striking change in national tax policy since 1914. Although the expansion of income taxes and other direct taxes has pushed up the proportionate share which direct taxation as a whole has had in the total tax revenue, a powerful single influence has been at work on the indirect tax side in the form of the sales tax. This tax has not displaced the excises or internal revenue duties, but has been added to them.

The best-known example of the modern sales tax is the French turnover tax, which was non-existent in 1919, and whose receipts rose by regular stages from an inconspicuous amount in 1920 to be the largest single source of revenue, displacing the income tax, according to the estimates for 1927. In that year the turnover tax was furnishing more than one-fifth of the tax revenue of the French Treasury.

Position today.—Other examples of the remarkable growth of sales taxes may be seen in European budgets today. In Germany, in the critical period following the installation of the Dawes plan, the tax was even more important than in 1927; it furnished one-fourth of the total

tax receipts in 1924-25 and one-fifth in 1925-26. In Belgium, more than one-fifth of the revenue of 1926 came from the sales tax. Austria furnished approximately the same figure. The position of the tax in the principal European countries is given in the following table:

USE OF SALES TAXES IN PRINCIPAL COUNTRIES ¹

<i>Country</i>	<i>Percentage of Total Tax Revenue Derived from Sales Taxes</i>
Austria, 1926.....	22.1
Belgium, 1926.....	21.1
France, 1927.....	20.8
Czechoslovakia, 1926.....	17.9
Germany, 1926-27.....	14.6
Italy, 1927.....	5.8

The table shows clearly the great importance of the sales tax in modern fiscal practice, and furnishes the evidence for the statement made earlier, that the sales tax is in modern times one of the two taxes of greatest fiscal importance. In four countries, Austria, Belgium, France, and Czechoslovakia, the sales tax was furnishing about one-fifth of the total tax revenue in the recent post-war year selected for the purposes of the table. This is a remarkable growth for a tax which was non-existent before the War. The German sales tax yield is more moderate (one-seventh of the total tax revenue), while the Italian yield is small, probably on account of a combination of two factors: a low rate and a relatively small volume of internal transactions.

No pre-war comparisons are possible, since the taxes did not exist in 1914. The sales tax seems to have fur-

¹ Estimates given in League of Nations, *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), pp. 58, 84, 144, 200-1, 229, 305-6.

nished a clear gain to the treasuries, except perhaps in the case of France, where it would appear that excises, purposely or unconsciously, have been spared demands which might have been made upon them if it were not for the existence of the turnover tax.

Nature of sales taxes.—When the principal countries, feeling unprecedented pressure from their treasuries just after the end of the World War, undertook the experiments with sales taxes, these took the form of general low percentage taxes on the value of sales, either all transactions or wholesale transactions only. With the sales taxes there were associated luxury taxes, that is, higher general percentage taxes (usually 10 or 12 per cent), applicable to the sales of groups of goods which were considered as luxuries. France, Germany, Belgium, Italy, Austria, Hungary, Czechoslovakia, Rumania, and the Serb-Croat-Slovene State introduced sales taxes in this period. Canada also employed the sales tax.

Although the taxes were introduced as a temporary and emergency measure, they show all the signs of permanency. In Canada alone the movement for abolition seemed strong at the time of returning prosperity, in 1927 and 1928.

History of sales taxes.—The more serious the fiscal emergency, the greater the speed with which the tax was added to the existing system, for the sales tax was not used as a substitute for older excises, as its present important position would suggest, but as a way of extracting additional revenue from the normal course of trade. Sales taxes are consumers' taxes, and the Treasury can reap a rich return from them while the public is unconscious of the burden.

The oldest tax of this group, the German turnover tax, was adopted in the summer of 1918. The French tax and a tax on wholesale transactions in Canada went

into effect in 1920, and the Belgian tax and a sales tax in Italy were put into operation in 1921. These sales taxes are a spontaneous development, and bear no relation to the sales taxes of earlier days. The general sales tax introduced in Rome by Augustus, the sales tax in the Kingdom of Naples in the fifteenth century, and the Spanish *alcavala*, a general sales tax of the Middle Ages, went their unsatisfactory ways and left little trace.² Excises on nearly everything have been the modern equivalent. Records of these, especially of the taxes imposed in England by Pitt during the wars with France at the end of the eighteenth century and the beginning of the nineteenth, and those imposed in the United States at the time of the Civil War, give the only true historical background for the modern sales taxes.

The scope of the tax.—The scope of sales and turnover taxes have varied greatly. Some extended to all transactions, both wholesale and retail, and others to wholesale transactions only. The first of these are usually called turnover taxes. Certain taxes include both goods and services, while others include only goods. The German turnover tax is an example of a tax which includes nearly every type of transaction in the line of goods and services.

The food supply is usually treated generously, for when the foundations of the sales taxes were laid, immediately after the war, the pressure of the population upon the food supply made the question of rising agricultural prices a serious one. Germany, however was apparently too necessitous in 1918 to permit even this exemption, and under the German law a tax is paid on transfers of food as on other transactions. France, mindful of the seven and a half million landholders who, in the words of a

² E. R. A. Seligman, *Studies in Public Finance* (New York, 1925), pp. 124-128.

former Minister of Finance, "are a social and domestic force which must be handled with discernment," exempted all agriculturalists unless they are carrying on some kind of manufacturing at the same time. Sales of bread were also exempted. Belgium acted less cautiously, but under the law transfers of bread, flour, and other foods defined as "essential" were exempted. Canada framed a long list of exempted products which included practically all of the important foodstuffs.

Aside from questions of political expediency, the intention of course was that these taxes should not affect too seriously the prime requirements of life. Canada extended this effort by exempting the products of forestry as well as those of agriculture, and by excluding ores and fuel of all kinds. Canada also found it desirable to protect lumber in a number of ways, one of which was the exemption from the sales tax of ships and the materials used in their construction.

Taxation of services.—The two kinds of taxes differ in their bearing on services. Turnover taxes apply to services as well as goods, while wholesale taxes are imposed on transfers of goods only. In France the taxation of physicians and lawyers was believed to be outside the purpose of the law, and the liberal professions were exempted. Germany made no exemptions of this kind, with the exception of the fact that medical and similar services paid for from trade union or public funds were not taxable.

The exemption of the smaller seller had very little attention when the post-war sales taxes were first drafted. A number of exemptions of this kind would naturally be expected under the turnover taxes. France exempted low-priced newspapers, but went no further. Germany did nothing at all for the small seller or the small sale. One of the wholesale taxes, Belgium's, was made inoperative

for sales of 30 francs or less, or for sales of 150 francs or less of the products of agriculture or coal mining, if they were made direct from the producer to the consumer.

Imports and exports.—There was no general tendency to make the taxation of imports under the sales tax fully equivalent to internal taxation. The Canadian law alone showed the results of a careful study of the situation. In that country importations by retailers or consumers were taxed at 6 per cent instead of the minimum of $4\frac{1}{2}$ per cent which would have been paid on goods produced inside the country; and importations by manufacturers, wholesalers, or jobbers were taxed at $3\frac{3}{4}$ per cent. Germany was influenced by the fact that luxuries were important items on her list of imports, and early in the history of the law she began to tax the first sale after importation. France doubled the regular sales tax for sellers who had no place of business in France, but there was opposition to the rule on the ground that it discouraged the importation of raw materials. Belgium taxed imports at the regular rate.

Nearly all of the countries which imposed post-war sales taxes were careful not to hinder exportation. Canada and Germany made a direct provision for a drawback on the taxes paid. Canada gave back 99 per cent of the tax paid on goods exported and Germany repaid the amount paid in taxes on the last sale before export. After the French financial reform of 1926 became effective exports were no longer taxed under the French law.

Tax rates.—"What the traffic will bear" was originally the rule for fixing the rates of sales taxes. A close adjustment of the rates to the needs of the respective treasuries has become possible only after the measure has been tried out for some years. When the French tax first surpassed the income tax as a source of revenue, in 1927, the basic rate was 2 per cent. At the beginning of that year the

rate in Germany was $\frac{3}{4}$ of 1 per cent and the rate in Italy was $\frac{1}{2}$ of 1 per cent on raw materials and 1 per cent on other goods.

The natural assumption would be that a tax on wholesale transactions only should have a higher rate than a tax which applies to all transactions, if the revenue from the limited number of sales implied by the former is to be adequate and effects upon consumers are to be equalized. Canada alone seems to have taken these points into consideration. The Canadian tax is intended to rest with equal weight in all persons in the same class. Consequently, a manufacturer who omits one of the ordinary steps in the selling process and sells direct to the retailer or consumer must see that a double tax is paid, instead of the ordinary tax which would be charged if he sold through a wholesaler who would take his turn at paying the tax.

Relation to competition.—One of the most common and one of the most important arguments offered against the introduction of sales taxes in the United States and in Great Britain was that it would harm the small manufacturer and bring further integration in industry. The argument runs in this wise: The manufacturer of finished goods who could combine with the manufacturers of semi-finished goods and raw materials in his line would pay fewer sales taxes and would have an advantage in the price at which he could offer his goods in the market. His small single-process competitor, who had no facilities for combination, would pay the penalty of his higher manufacturing costs and would go to the wall. In the same way the concern which could develop its own selling organization would have an advantage over the business which must deal with the wholesaler and with the jobber, and in the end the wholesaler and the jobber would be eliminated. In short, the sales tax would operate every-

where to reduce the number of transfers made and so to produce vertical combination.

This argument did not come from theoretical quarters alone. It was sponsored by the President of the Federation of British Industries; it was widely quoted by producers in the United States; and its validity was assumed when the sales tax laws of Belgium and Germany were drawn up.

The evidence.—The trouble with the argument is that in the history of sales taxes almost nothing can be found to support it. Its advocates neglected the fact that small single-process manufacturers and combined concerns already existed side by side in the same business in many localities. As year after year passes over them the evidence accumulates that something weightier than a 1 per cent or 2 per cent difference in costs is necessary to eliminate any one type of business.

Belgium started the sales tax project with the supposition that it was necessary to take careful steps to preserve competition. The small manufacturer and the commission agent were both to be protected; the former through special taxation of branches and the latter through a type of exemption. The original Belgian law therefore contained a provision according to which the despatch of goods to a branch was treated as a taxable sale. Before many weeks had passed it was clear that this device was over-elaborate and troublesome, and it was done away with without protest. After the change was made no increased tendency towards combination could be seen in Belgium.

Safeguards for individuals.—Protection was given to commission agents in Belgium by providing that the purchases of such an agent buying or selling in his own name should be taxable only when the transfer was made from the seller to the final purchaser—that is, only one sale

was made taxable. This provision as well may have been unnecessary, but since it was in the form of an exemption it imposed no troublesome obligation and it attracted little notice.

In Germany the methods used to preserve competition were almost the same. The small manufacturer was protected in the law of 1918 by a provision that transfers from one branch of a business to another should be treated as if they occurred in separate businesses. Here again the tax proved troublesome. The difficulties of determining and defining the different branches of large manufacturing plants and of deciding the number of turnovers which took place could not be overcome, and the provision was removed from the law. It soon became clear that precautions of that kind were of no value in Germany's peculiar situation. The violent changes in the value of the mark in 1922 and the other unsettled conditions of the country made the differential advantage of 2 per cent in original cost a negligible element.

Germany continued to protect the middleman in the way used in Belgium, by providing that when a sale formed one of a series, and the seller never had the goods in his immediate possession, he was not to be considered as an owner and the transfer was therefore not taxable.

Effect on prices.—A second argument which has to do with the effect of sales taxes upon the public at large is concerned with the effect on prices. The assumption is usually that prices rise with the amount of the tax, and no more and no less. The evidence is that this may be substantially true for a wholesale tax, but that it does not apply to a general turnover tax. In Belgium and Canada the sales tax is separately presented and paid, in the first instance by the use of adhesive stamps and in the second by notation on the invoice. Here the effect on prices apparently conforms to rule. In France and Germany the

additions have not been so simple. The French retailers have apparently succeeded in adding the tax several times over when prices were rising but failed to cover the amount in the period of depression. In Germany, when the chaos of the falling mark appeared, selling prices had no recognizable relation to cost or to any one of the elements in cost.

Even where there are no sudden increases in the general price level to blur the specific increases caused by the sales tax, this tax may pile up with several repetitions before an article reaches the consumer. The taxation of automobiles under the Canadian system is an example. A number of transfers, all taxable, occur between the raw material stage and the progress of a finished automobile along the highway. In such industries as this the tax paid is said to amount to 15 per cent or 20 per cent additional on the consumers' price.

Collecting the sales tax.—Although some of the problems produced by a new sales tax, such as the effects upon combination in industry, were exaggerated in the early discussions, the complexity of the task of administering the tax was generally underestimated. These questions have proved to be more difficult in the case of general turnover taxes than they are with wholesale taxes. In France, for example, a million and a half shopkeepers protested almost with one accord against the requirements which were made of them with respect to their accounting. They were not accustomed to keeping books of a kind which could be opened for inspection, and they hated and feared the process. In Germany the small sellers were less vociferous, but their accounts were admittedly fragmentary and inaccurate.

A manufacturers' and wholesalers' tax is easier to collect. These men keep better accounts habitually and they realize that opening to inspection the figures which show

sales does not involve unpleasant revelations concerning the whole business, as the requirements under the French turnover tax law do.

Actually manufacturers and wholesalers have the heavier burden in the matter of collections, for it is more difficult to compute taxes on separate sales than to tax total turnover at, for instance, 2 per cent, and to give the resulting amount to the government. Some of the Belgian merchants whose accounts were in good order soon became conscious of this fact, and they petitioned to be allowed to use the turnover tax methods. In Canada, however, very little protest was heard. It is curious that on the whole the collection of the wholesale taxes has caused less dissatisfaction than the collection of the other type.

Possibility of evasion.—Less evasion is possible under the wholesale tax. The individual concerns are more conspicuous and better known by their very nature; or, if not known, they are easier to check up on account of the size of their business transactions; and the fact that their numbers are smaller simplifies the task of the government agents. The stamp method used in Belgium for each transaction and the licensing of wholesalers, jobbers, and manufacturers in Canada proved to be two good and simple ways of preventing evasion as well as of accomplishing their avowed purpose, that of effecting collection with a minimum of administration.

It follows that wholesale taxes cost less to administer, at least as far as the government is concerned. Actual figures for cost of collection are not available, but it is known that the first years of collection in Belgium and Canada brought relatively few additions to the financial staff. In France the inexperience and inefficiency of the turnover tax collectors soon became proverbial, and the

cost must have been high. Obviously the collection of small amounts from smaller sellers under a turnover tax could not be other than expensive.

Yield of sales tax.—The capacity of sales taxes to yield huge sums even when they are levied at a low percentage rate is one of their distinguishing characteristics. The most consistent development is shown by the French turnover tax, which has steadily gained in importance until it is now counted on for more than a fifth of the total tax revenue. The corresponding proportions for other European countries were given above. These amazing yields for a single tax are made possible by the universality of its operation and the fact that its incidence is not perceptible to the persons who pay the tax—the ultimate consumers.

The emergency value of such a tax was recognized by the Financial Committee of the League of Nations when the financial reconstruction program for Hungary was being framed in 1924. The turnover tax rate then stood at 3 per cent; and while it obviously acted as a consumers' tax applying to a population which was to a considerable extent impoverished, the committee recommended that the reduction of the rate to 2 per cent should be delayed until the budgetary situation became somewhat easier.

Criticisms of the tax.—In spite of the high productivity of sales taxes they are unpopular in countries which are sympathetic towards "democratic" taxation, particularly in England and the United States. The reasons lie in the fact that the tax is shifted to the purchaser and so acts as a general consumption tax the weight of which is of course most difficult for the poorest citizens to bear, and least onerous for the well-to-do. The French turnover tax, for example, is by a rough computation the equivalent of a per capita tax of at least \$8.00 a year, or

\$40.00 for a family of five. It may be more than that, for sales taxes are apparently cumulative; that is, since the price in each successive transaction which involves a certain commodity is based on the cost of that commodity to the dealer plus the customary percentage profits on that cost, an original three francs which represented the 2 per cent sales tax in the first sale may become five or six francs by the time the commodity reaches the consumer.

Such indirect taxes are borne willingly enough if they are hidden from the consumer, as they are under the laws of those countries which prohibit the invoicing of the tax, but they are unpopular if they are perceived. If they are hidden, they probably act simply to depress the standard of living by the amount of the tax. In the principal Anglo-Saxon countries, with the exception of Canada, the further development of such taxes is inconsistent with present fiscal theory.

Evidences of success.—Nearly all of the administrative difficulties which were prophesied for the sales tax have been solved. Fears that it would not yield adequate revenue have proved to be unjustified. Its operation does not seem to have diminished the present variations in the industrial structure; in other words, it has not acted perceptibly to increase vertical consolidation. But the objection to the tax on the ground that it is a consumers' tax, one which raises the cost of the necessities of life to the poorest citizens, is fully justified.

Upon industry and commerce the sales tax has an effect related to its depression of the standard of living of the most necessitous consumers. It raises costs for the marginal seller and so handicaps him in competition with sellers of his grade of efficiency who are taxed under a progressive plan. This influence is in the long run a slight one, and is of less significance socially than the influence of the tax upon the cost of living.

BIBLIOGRAPHICAL NOTE

The sales tax, the prime source of revenue in certain countries, is still so new that few specialized volumes exist. The pamphlet *Sales Tax Laws of Foreign Countries* (Government Printing Office, Washington, D. C., 1921) is a valuable aid. E. R. A. Seligman, *The Shifting and Incidence of Taxation* (New York, 3rd ed., 1910) is valuable in furnishing a theoretical background. In a later volume by the same writer, *Studies in Public Finance* (New York, 1925), there is a critical chapter on existing sales taxes. Paul Leroy-Beaulieu, *Traité des Finances* (Paris, 7th ed., 1906) contains criticisms of the method.

References dealing with the taxes as they have been imposed in particular states since 1918 are appended to the two following chapters.

CHAPTER IX

SALES TAXES IN GERMANY AND FRANCE

The German turnover tax.—The history of the German turnover tax begins with the adoption of a low stamp tax in the course of the World War. This tax proved to be cumbersome to administer, and in July, 1918, it was replaced by a tax of one-half of one per cent on turnover, that is, on gross receipts from sales of goods and from services. The second tax was more workable, and it soon won an established place in the budget. The record of changes in rates is as follows:

<i>Date</i>	<i>Rate (Per Cent) of Turnover Tax</i>
July 16, 1918.....	.5
December 24, 1919.....	1.5
April 8, 1922.....	2.0
January 1, 1924.....	2.5
October 1, 1924.....	2.0
January 1, 1925.....	1.5
October 1, 1925.....	1.0
April 1, 1926.....	.75

This tax was at first accompanied by a special turnover tax on luxury articles at 15 per cent. The luxury tax was reduced to 10 per cent on January 1, 1925, then to 7.5 per cent, and was finally abolished in April, 1926.

Scope of the tax.—The turnover tax applies to sales of goods and services which any person in Germany makes for payment in the execution of his business or profes-

sional activities. Since January 1, 1925, exports have been exempt from the turnover tax. Certain foodstuffs, raw materials, and other imported necessities are exempt. On the whole the scope of the tax, as compared with that in other countries, is wide and inclusive.

Like the other true turnover taxes, as, for example, those of France and Czechoslovakia, the law is founded upon the self-notification of liability and upon the statutory duty of keeping detailed records showing the transactions liable to the tax. No turnover tax can come up to budget expectations unless there is some way of insuring careful records of the innumerable daily transactions upon which it is based. In Germany the accounts which are required to be kept are daily accounts of sales and services subject to taxation at the various rates, a stock book, and a tax book showing the details of the articles sold, the prices, and the date of sale. The taxpayer files a return covering a quarterly period and makes advance payments on the basis of his quarterly sales. Adjustment of any amounts due is made at the end of the year.

Yield of the German tax.—The turnover tax rendered a remarkable service to Germany in the period of depreciating currency, financial disorganization and budgetary distress. It was adapted to a depreciating currency, for it brought in its returns promptly, before the purchasing power represented had vanished, and it therefore proved to be reliable in times in which the sluggish income and inheritance taxes were failures. In 1923-24 and in the following year the turnover tax furnished about one-fourth of the total tax revenue of the Reich. Before that time it had been climbing towards the position of the most important tax. In succeeding years it has been dropping until at the present time it yields a little more than one-tenth of the total tax revenue. The following table presents these changes in detail:

YIELD OF THE GERMAN TURNOVER TAX ¹

Year	Total Tax Revenue (Millions of Marks)	Yield of Turnover Tax	
		Millions of Marks	Per Cent of Tax Revenue
1920-21	54,656	5,049	9.0
1921-22	81,920	11,474	14.0
1922-23	1,529,535	228,537	14.9
1923-24	Not available	Not available	Not available
1924-25	7,322	1,799	24.6
1925-26	6,856	1,338	21.0
1926-27 ²	6,685	974	14.6
1927-28 ²	7,750	900	11.6
1928-29 ²	8,692	1,050	11.2

The tax in a crisis.—The reduction of the turnover tax rate to .75 of one per cent in 1926 was a part of the program for the relief of industry, which had been undergoing a period of depression. Early in 1926 the Minister of Finance announced that "the most important thing is the liberation of German business from the present burden of taxation," and proposed a reduction of the turnover tax rate, in spite of the fact that the existing rate of 1 per cent was relatively low.

Germany's high price level at that time was very generally laid at the door of the existing turnover tax, on the ground that it was levied over and over again and multiplied many times from the moment the raw material was bought by the manufacturer until the finished product reached the hands of the consumer. In a period of stable or rising prices such a tax is paid, as it is intended to be

¹ League of Nations, *Memorandum on Public Finance*, 1922 (Geneva, 1923), p. 62; *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), p. 229; *Report of the Agent General for Reparation Payments* (Berlin, 1927), p. 59.

² Estimated.

paid, by consumers, and a reduction of the rate would benefit industrialists only in the long run; but German manufacturers and traders were not convinced that they were passing on the tax in its entirety. The reduction in the rate strengthened the position of the tax.

The question of combination.—Theoretically, a tax of this kind, which is imposed wherever a change of ownership occurs, is a stimulus to vertical combination in industry. If a group of processes can be brought under one owner, from the first stages of manufacture to the finished product, the commodity manufactured can escape several payments of the tax which an article which has passed through the hands of several independent concerns would have to bear, and the combined concern will be placed in the advantageous position of offering its goods on the market with comparatively low costs of production. This effect was prophesied in Germany in much the same way in which it was set forth in England by the Federation of British Industries when the sales tax first came up for consideration in that country.

Accordingly the German law of 1918 attempted to guard against this tendency, or rather to protect the small independent manufacturer from too severe competition, by providing that transfers from one branch of a business to another should be taxed as if they occurred in separate businesses. But the task of fixing an arbitrary number of turnovers for the various stages of combined manufacture and of fixing the prices of the products when they were turned over to other processes proved to be unmanageable for the tax authorities, and in the turnover tax law of December 24, 1919, the provision for taxing branches in this way was eliminated.

Absence of effects.—Events have shown that in Germany, at least, the original argument could not be substantiated by facts. No tendency towards combination,

with the possible exception of the formation of selling organizations, was observed in such a form that it could be said to be the result of the provisions of the turnover tax law. Business men in Germany offered the explanation that in many German industries competition was less keen than it was in the United States and economies which were represented by only a small percentage were overshadowed by other factors. In particular, the form of the various cartels was more or less fixed for some of the important industries and the turnover tax was powerless to influence it.

Although the organization of industry in Germany was probably not modified by the turnover tax, the application of the tax to every change in ownership produced fine-spun definitions of ownership itself. The middleman has specific protection in the law, for it is evidently not intended that he shall go to the wall in case competition should after all begin to operate too closely. The law provides that when a sale forms one of a series, and the seller never has the goods in his immediate possession, he is not to be considered as an owner and the transfer which he makes is therefore not taxable.

The attitude of the seller.—All of the sales and turnover taxes of Europe had to pass through an early stage of uneasiness and dissatisfaction on the part of the sellers who must make the immediate payments of the tax and the consumers who must ultimately bear them. This period differed in length in the various countries, and in Germany seemed to be reduced to a minimum. The principal points of opposition from the manufacturers and merchants were usually the trouble of account-keeping and the publicity which the books were given.

During the period of depreciating currency the German seller never needed to feel anxiety about whether he would have difficulty in passing on the tax to the consumer.

With the mark falling and prices leaping he could pass it on ten times multiplied if he liked, but it was a case of a rose by any other name as far as his own accounts were concerned. He had to recoup for his own costs, as far as he could, by raising prices to match the fall of the mark, but the name which he gave to his increased selling price hardly mattered to him or to anyone else.

Possible evasion.—There was undoubtedly a considerable stimulus to evasion in making payments to the government. The small merchant was between the upper and the nether millstone, for he rarely had sufficient commercial information to keep his prices quite in line with the falling mark. Before he realized what had happened he was in immediate danger of going to the wall financially. If he could save a few thousand marks, or even a few hundred, by neglecting to note down sales he might be able to postpone bankruptcy for a few days. There was evidence that many small retailers had succumbed to the temptation. And there was also no question that most of the sales between private individuals were never reported. Transfers of musical instruments, hunting accessories, animals, and those numerous sales of jewelry, silver, and works of art by which the upper middle class in Germany were managing to maintain life—"living from pearl to mouth," as they said—most of these were beyond the reach of the tax authorities.

Turnover tax policy.—The reduction of the turnover tax rate, beginning with the decrease from 2.5 per cent to 2.0 per cent which was made on October 1, 1924, is in contrast with French fiscal policy, under which sales tax rates have been on the whole increased and yield has grown remarkably. Germany's attitude towards this tax is probably due to the supervision of the country's financial affairs which the Dawes Plan involved, and perhaps also to a fiscal tradition which occupies a middle ground be-

tween the direct tax policies of the Anglo-Saxon countries and the contrasting policies of much of the rest of Europe.

The Report of the Dawes Committee in 1924 contained criticism of the existing high rate of the turnover tax—which was then 2.5 per cent—and coupled with it an intimation that the working people of Germany were paying the greater part of the taxes. It was soon after the publication of that report that the progressive reduction in rates was begun. Fortunately for the budget, the yield held up excellently, and the one-ninth of the tax revenue which the turnover tax yielded in 1927-28 was by no means a negligible part of a hard-pressed budget.

Under the German system 30 per cent of the yield of the turnover tax, with a guaranteed minimum of 450 million marks, is transferred to the states and communes by the Reich, which collects the tax. For 1927-28 and the following years the guaranty is removed.

History of the French tax.—The French turnover tax (*l'impôt sur le chiffre d'affaires*) was instituted in accordance with a law passed on June 25, 1920, and went into effect on the first day of July of that year. It was imposed at a rate of 1.1 per cent, 1 per cent of which was allotted to the national treasury and the remaining one-tenth to the local governments. It was accompanied by a luxury tax of 10 per cent. Imports were taxed at 1.1 per cent, with an additional 1.1 per cent in cases in which the vendor had no place of business in France.

The law applied to all industrial and commercial transactions consummated within the country, with the exception of sales of bread and of certain special commodities. That is, it was imposed upon gross sales and the gross amount of commissions. The persons exempted were agriculturalists, members of the liberal professions, employees, and the political subdivisions.

On March 26, 1924, the rate was raised to 1.3 per cent. Early in 1926 the rates were again raised and adjusted to various types of business, so that 14 different rates of turnover tax, apart from taxes at the production stage for certain industries, were in force until August, 1926. In that month the reform of the tax recommended by the Committee of Experts was carried through, and the taxes were unified and given a 2 per cent rate. At this time the tax on exports was abolished.

Early difficulties.—The first few months of the life of the tax were extremely difficult ones. Returns for each succeeding month fell behind the last, and the Ministry of Finance had difficulty in finding the explanation. It was said at first that the tax was too complicated to be readily understood, and that many business men had not paid because they did not realize that their own businesses were among those liable to the tax. These explanations were weak in that they did not apply to the fact that the returns were at first fairly large.

A climax in the early history of the French turnover tax came in June, 1921, when the Finance Committee of the Chamber of Deputies proposed to double the turnover tax and at the same time to reduce the tax on wines, which is an agricultural tax. The pent-up irritation against the turnover tax burst forth. Opponents of the tax contended that it was so generally evaded by such methods as that of skillful bookkeeping that it was merely a tax on honest men. In any case it was claimed to be a "city tax" and one of the objectionable elements in a system under which business men were more heavily taxed than farmers in proportion to their ability to pay.

Criticisms.—The *Temps* claimed that two-thirds of the merchants evaded the turnover tax and that it was actually a tax on the remaining one-third; that it was a tax only upon those who wished to pay; and that the ex-

emption of farmers' cooperative organizations was unjust. Other opponents asked that if the tax continued all farmers should be made to keep books and to pay the taxes on business transactions which they were almost universally escaping.

The opposition became so lively that the suggestion of doubling the turnover tax was withdrawn the day after it was made, although the Minister of Finance "reserved the right" to make the move at a later date. The uproar served, however, to make clear two facts about the existing tax: the large amount of evasion and the cleavage between the agricultural districts and the business communities on such questions. It also served to show that the theoretical difficulties postulated at that time in Great Britain and the United States for such a tax were remote from the emergencies which actually occurred.

The public attitude.—The tax remained unpopular with the public and unsatisfactory to the Treasury for some time. The French tradesmen intensely disliked "the inquisition" as they called the monthly return required of them. The exclusion of the agriculturalists was necessary, on account of the importance of the small farmers in the population and their influence in the Chamber of Deputies, but it evoked criticisms from the commercial interests, who have felt for a long time that the commercial centers in general and the people of Paris in particular bear more than their proportionate share of taxation.

If the tax were passed on to the consumer in all cases and at all stages of the business cycle, the business man would have little cause for complaint, unless he grudged the time spent as an unofficial tax collector. But shortly after the French tax was introduced, in 1920-21, France went through a serious business depression, with generally falling prices. At such a time it is more difficult for the

commercial seller to pass on the tax to the final consumer. This burden, becoming in effect a direct tax upon the merchants and industrialists, increased the difference between their heavy tax burden and the light one of the agriculturalists. This inequality was believed by French observers in the first years of the tax to be the principal cause of the hostility to it.³

Difficulties of collection.—Before the turnover tax law was passed, collection seemed to offer few problems. The Code of Commerce contained in the Napoleonic Code required every one engaged in trade or commerce to keep accounts showing his assets and liabilities and giving a detailed record of all his business transactions day by day. It seemed a simple matter to require in addition that traders should report to the tax authorities every month and pay their turnover taxes, using these figures as a basis.

In the first collections difficulties of such seriousness were met that for a time they threatened to swamp the tax. The small French tradesmen seemed unwilling to divulge their accounts. The books which they had been required to keep under the Code were used only in legal proceedings, and when such proceedings seemed unlikely to occur they were often kept very sketchily. One of the characteristics of French commercial and industrial life which should not have been underestimated is an independence and a dislike of prying into personal affairs. The first efforts made by the tax agents were depressingly unsuccessful.

Concessions to the public.—A partial sop to the tax-paying public was found in 1922 in the inconspicuous section of the law which referred to *le forfait*, a term which may be translated as "the lump-sum payment." Persons

³ Unpublished memorandum of the Société d'Administration Financière, (Paris, May 3, 1922).

liable to the tax whose turnover did not exceed 48,000 francs a year were allowed to contract to make payments every three months on the basis of the turnover of the preceding year, with adjustments from time to time. The possibility of paying the tax in this way removed the most irritating aspect of the new measure. So many representations in favor of the extension of the system were made to the Ministry of Finance that it seemed imperative to make some kind of a modification of the existing rules. The budget law for 1922 therefore contained a section which extended the privileges of the lump-sum system to taxpayers doing business on a larger scale.

Another difficulty under the early law, that of determining the precise commodities which should be classed as "luxuries" and subjected to the higher tax, was serious at first but declined with experience.

The later history of the French turnover tax seems to bear out the old saying that any old tax is a good tax. With the passing years much of the opposition and many of the difficulties of collection have disappeared. In the business depression which came shortly after the financial reforms of August, 1926, the sellers found difficulty in passing on the tax to the consumer while prices were falling, just as they had in 1920-21, and a general opposition to the tax spread outwards from that argument; but with returning prosperity the opposition languished.

Yield of the tax.—The importance of the yield of the turnover tax to the French treasury can scarcely be overestimated. The first eight years of its life were years of severe fiscal difficulty, of a type which is not peculiar to post-war years as far as France is concerned, but were due in large part to over-anticipation of reparation payments. In this critical period the turnover tax soon became the most trustworthy tax. Although it would seem to be susceptible to sharp decreases in periods of business

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depression, it has stood up remarkably well in such times.

The subjoined tables show that the yield has increased steadily, even when the influence of the falling franc is discounted. The first table indicates roughly the absence of sensitiveness to minor changes in the business cycle.

YIELD OF THE FRENCH TURNOVER TAX ⁴

<i>Year</i>	<i>Millions of Francs</i>	<i>Year</i>	<i>Millions of Francs</i>
1920	942	1924	4090
1921	1897	1925 ⁵	4439
1922	2280	1926 ⁵	6445
1923	3016	1927 ⁵	7582

In terms of the percentage of the total tax revenue, the French turnover tax has grown as follows:

PERCENTAGE YIELD OF FRENCH TURNOVER TAX ⁶

<i>Year</i>	<i>Total Tax Revenue (Millions of Francs)</i>	<i>Turnover Tax</i>	
		<i>Yield (Millions of Francs)</i>	<i>Per Cent of Tax Revenue</i>
1925	28,057	4439	15.8
1926	33,329	6445	19.4
1927	36,515	7582	20.8

Usefulness of the tax in France.—The turnover tax seems well suited to the needs and habits of the French

⁴ British Department of Overseas Trade, *Report on the Economic and Industrial Conditions in France, 1925-1926* (London, 1927), p. 37; League of Nations, *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), p. 201.

⁵ Estimated.

⁶ Estimates given in League of Nations, *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), pp. 201, 202.

Treasury. While it cannot be denied that the sales taxes fail to meet modern requirements of taxing according to ability to pay, it must be remembered that there are not as yet many traces of taxation of this type in the French fiscal system. France leans in general towards indirect taxation, taxation paid in the form of increased prices of commodities, and if the turnover tax were not used in this way it is probable that increases in the excise system would be substituted. Bringing the turnover tax yield up to one-fifth of the total tax revenue, and holding the receipts from the tax comparatively steady, are achievements which have been of great value in a somewhat impoverished country.

BIBLIOGRAPHICAL NOTE

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A fuller account of the German tax is found in R. Grabower, *Die Geschichte der Umsatzsteuer* (Berlin, 1924). The *Journal officiel de la République Française* (Paris, daily), furnishes changes in the law and supplementary figures.

CHAPTER X

SALES TAXES IN BELGIUM AND OTHER COUNTRIES

The Belgian transfer tax.—The sales tax in Belgium is found in the form of the transfer tax (*taxe de transmission*). Under a law approved on August 28, 1921, and effective on November 14th of that year, a tax of 1 per cent was imposed on transactions in merchandise and other movable property with the exception of retail sales. This tax, like the Canadian tax, was intended to be a manufacturers' and wholesalers' tax. It is described and collected as a tax on individual transactions, and is therefore to be distinguished from the turnover taxes which were imposed in Germany, France, Czechoslovakia and other countries at about the same time.

There were four conditions for the application of the Belgian transfer tax:

1. An actual transfer must occur.
2. The transfer must be between living persons and for a consideration.
3. The goods transferred must be movable by their nature.
4. The transfer must be consummated in Belgium.

The last point required the inclusion of imports under the tax. Goods intended for export might, however, be imported free if certain conditions were met. Gifts and inheritances were plainly not touched by this tax. The

dispatch of goods to a branch was at first treated as a taxable sale, but this proved to be unduly burdensome to systems of chain stores, and such transfers were exempted. The purchases of a commission agent buying or selling in his own name for a principal were taxable only at the time of transfer from the vendor to the definitive purchaser; that is, the tax was paid on one transaction only.

The exemptions.—The principal transfers which were exempted were as follows:

1. The sale of bread and flour for baking bread, potatoes, lard, margarine, frozen meat, eggs, and other food-stuffs as specified by royal decree.

2. Public and auction sales of food in exchanges and markets.

3. Sales to the government, the provinces, the departments, and to public establishments.

4. Sales of water, gas, and electricity.

5. Sales of not more than 30 francs.

6. Sales of farm products and coal, directly from the producer to the consumer, of not more than 150 francs.

7. Sales by retailers direct to individuals for their personal use without regard to the amount of the sale.

8. Goods returned by a branch to a head office.

9. Transfer in execution of a contract of sale which was required to be publicly registered in Belgium.

10. Exportations, either direct or through brokers.

11. Importations (a) by the chief diplomatic representatives; (b) personal baggage, etc.; (c) for re-exportation; (d) of metals from the colonies.

Collection.—The tax was calculated on the total purchase price paid. It was paid by affixing double stamps (printed in two parts, detachable on a horizontal line) on the seller's invoice and on the purchaser's invoice, half on each, and by cancelling them. It was the duty of the

seller to provide the stamps and to attend to the details of affixing and cancelling them.

The mechanism of collection was determined by the simple desire of the legislators to avoid any extension of personnel. For the merchant, however, more clerical work was involved than in the computation of the tax on turnover as it was made under the French law. From the point of view of the government tax authorities the process was simple, and it did in fact cause little extension of personnel.

Early success.—The Belgian transfer tax failed to encounter the obstacles which beset the French tax. The yield for the first year was excellent, and the tax supplied a large section of the revenue from the first in spite of the importance of the income tax in the Belgian system.

Opposition to the tax in the first months of its life was not active. The main criticism which merchants expressed concerned the burden which the bookkeeping and other requirements laid upon them. It could scarcely be denied that the government cast upon the sellers all the toil and trouble of acting as its tax collectors without paying them salaries therefor.

Nevertheless little was heard of the "inquisitorial methods" for which the sales tax is usually held to be responsible. This was for the very good reason that the opening of the purchase and sales invoice books did not involve exposing one's accounting secrets,—or at least the most precious of them.

The consumer.—The attitude of the consumer, to whom this tax, like sales taxes in other guises, is ultimately passed if the course of business is at all normal, found little public expression. High taxation as a factor in the cost of living was less of an issue at that time than it was in England, for example. Before the war Belgium, a small and densely populated country, had fewer

governmental expenditures than several other areas with similar resources, and the burden of taxation was not acutely felt. Even after the war, when a part of the country was in the process of being restored after devastation, and when the government bureaus and departments were costing more than ever before, the burden of taxation was not crushing. The ultimate consumer was not pressed down to his last centime in the matter of taxes, either direct or indirect, and in so far as he was conscious of the incidence of the transfer tax, he seemed to think that it was as good as any other.

Yield of the Belgian tax.—The Belgian transfer tax has maintained and even improved upon its early position as a revenue-producer. Belgium is not one of the countries which, like France, rely upon indirect taxation as the main basis of the revenue. Belgium has consistently obtained a fourth or more of her revenue from the income tax alone. The transfer tax, however, has maintained a good second place. The proportions of the total tax revenue furnished by these two taxes in 1925 and 1926 were as follows:¹

	<i>Per Cent of Tax Revenue Furnished</i>	
	1925	1926
Income tax.....	30.6	33.9
Sales tax.....	19.7	21.1

Belgium furnishes an interesting example of the use of the sales tax in a country which is committed by habit to the "democratic taxation" typical of Great Britain and, in post-war years, of the United States. It is significant that these two taxes alone furnish from 55 to 60 per cent of the total tax revenue. The revenue system is simplified and modernized, to an extent which is highly suitable for a commercial country.

¹ League of Nations, *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), p. 84.

The sales tax in Czechoslovakia.—Late in 1919, after a year of existence as an independent nation, Czechoslovakia was still searching for new ways of raising state funds. That country, alone in central Europe, was unwilling to utilize the popular device of printing paper money to provide for budget needs. It therefore resorted to the new fiscal devices which were being experimented with by its neighbors, including the capital levy and the sales tax. The sales tax proved to have a permanent value for the country.

The law providing for the sales tax was passed in December, 1919, and went into effect on January 1, 1920, giving this country one of the earliest of the modern sales taxes. It required the payment of a tax of 1 per cent of the selling price on all transactions in commodities, raw, semi-finished, and manufactured; upon services such as those which are rendered by physicians, lawyers and members of the other recognized professions, and upon a large group of other services, including those of hotel keepers, real estate agents, information bureaus, and barbers. The law was obviously framed with great care so that the whole range of commercial transactions and commercial and professional services should be brought under it. Together with it was incorporated a luxury tax of 12 per cent at the place of production and 10 per cent at retail establishments.

Revenue possibilities.—Early in the career of the tax it became evident that if the tax was not evaded it would be an excellent revenue-producer. Czechoslovakia is an industrial country, intensely conscious of the strength and variety of the resources which the dissolution of the Austro-Hungarian Empire left within its borders, and bent on stimulating internal trade and commerce with other countries.

The emphasis upon industry and trade and the new

Czechoslovak Government's ingenuity in stimulating foreign trade brought prompt results, and Czechoslovakia's transactions even at that early date formed a reliable basis for a tax on sales. Furthermore, the Czechs were accustomed to heavy taxation at the hands of the previous government, and were willing—if any people can be said to be willing—to pay the taxes if they were imposed in not too inconvenient a form.

In the first two years the turnover tax yielded from a fourth to a fifth of the total tax revenue. In 1921 it stood second among the taxes, with only the coal tax ahead of it. The Government was convinced of the productivity of the tax before the first year of its operation was over, and was anxious to increase the rate, but diffident as to the effect upon the public.

Consumers' objections.—The first few months' experience made it clear that consumers in Czechoslovakia were strongly opposed to having the tax passed on to them. They not only comprehended that they, as consumers, actually and finally bore the tax burden, but they contended that the tax was made an excuse and a cover for demanding extortionate prices. Two circumstances gave ground for this suspicion. The original law prohibited a separate calculation of the tax in the fixing of the selling price, and the door to an artificial raising of prices was thereby opened. In the second place, Czechoslovakia was undergoing erratic price changes, in spite of her careful currency policy, partly on account of sudden changes in the supplies of various commodities. It was natural—and perhaps in part correct—that consumers should ascribe price increases which seemed incomprehensible to the effect of the sales tax.

At the same time, protests of other types which were being made against the French turnover tax failed to appear to any extent. Criticisms of evasion and hostility

between the trading and the agricultural classes did not come to the front so conspicuously, although agriculturalists were relieved of one-half of the amount of the tax.

Changes in the tax.—In August, 1921, the rate was increased to 2 per cent and some of the objectionable features were removed. According to the new law, which went into effect on October 1, 1921, the tax was calculated separately from the selling price of the commodity, and one of the consumers' main sources of grievance was thereby removed. The price issue was eased by retaining the former 1 per cent rate for meat, bakery products and products of the soil—that is, for all food products except fish and game.

Importance of the yield.—In 1922 the turnover tax went ahead of the coal tax in its yield, and it has remained the most important tax. At the present time no tax approaches it in productivity. The income tax, which is second, yields only about one-half as much. The following table, showing the yield from 1922 to 1926, illustrates at the same time the usefulness of the tax in a new country with no established financial habits and somewhat depleted resources. In such a state land taxes and income taxes are weak and undependable, especially at first, on account of the upheavals from which the new country has emerged. Commercial transactions, however, must go on, and from these the hard-pressed state can derive a dependable revenue. In addition to the sales tax, the most productive of the group, Czechoslovakia uses a wide variety of indirect taxes, including excises on beverages, the coal tax, and the transport tax. The government monopolies are also important revenue producers.

The table shows that for five years the sales tax yielded one-fifth of the tax revenue, and that it was constant and dependable in its yield. The sum received from the sales tax was not far from 1,600,000,000 crowns in any one

of these years, and the fraction of the tax revenue which that sum formed corresponded closely to 20 per cent in each year.

YIELD OF THE CZECHOSLOVAK SALES TAX ²

Year	Total Tax Revenue (Millions of Crowns)	Yield of Sales Tax	
		Millions of Crowns	Per Cent of Tax Revenue
1922	8652	1693	19.6
1923 ³	8488	1807	21.3
1924 ³	8023	1600	19.9
1925 ³	8072	1600	19.8
1926 ³	8943	1601	17.9

The Polish turnover tax.—The taxation of gross sales in Poland was introduced in 1923.⁴ The law was based on a somewhat similar Russian law, under which two taxes, an annual business license certificate tax and a turnover tax, operated together. In one or both forms the tax applied to all business, operations, and liberal professions, with certain exceptions. Welfare agencies, export organizations, and strictly agricultural operations were excluded.

The general rate on turnover, as it stood in 1926, was 2 per cent, with the following exceptions:

1 per cent on raw materials.

5 per cent on wholesale transactions in materials for home agriculture and industry.

1 per cent on retail trade in food.

5 per cent on commissions.

² League of Nations, *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), p. 144.

³ Estimated.

⁴ Republic of Poland, *Report Submitted by the Commission of the American Financial Experts Headed by Dr. E. W. Kemmerer* (Warsaw, 1926), pp. 148 *et seq.*

Administration of the law.—The American Financial Commission which visited Poland in 1926 to assist the Polish Government in carrying forward financial reforms found the 2 per cent tax then in existence one which presented "rather serious difficulties of administration." The problem of obtaining an accurate return from all those who were liable to the tax was made difficult by an absence of bookkeeping tradition. The newly organized country lacked officials trained in this particular type of administration.

Every person engaged in a trade, business or occupation subject to the turnover tax was expected to keep a record of gross income, to present it for assessment at a district office, and to pay the tax annually. All of the larger commercial and industrial firms, especially those which kept books of account, were required to pay, during the year, an advance on account of the tax. The largest concerns were required to pay monthly an amount equal to the tax on the turnover for January, while the others might either pay quarterly one-fifth of the previous year's tax, or monthly one-fifteenth of that amount.

Yield of the tax.—The yield of the turnover tax was as follows:⁵

YIELD OF TURNOVER TAX

Year	Total Tax Revenue (Millions of Zlotys)	Yield of Turnover Tax	
		Millions of Zlotys	Per Cent of Tax Revenue
1924	1043	132	12.7
1925	934	170	18.1

In years of so great financial uncertainty as 1924 and 1925 were in Poland, little significance should be attached

⁵ *Ibid.*, pp. 90, 155.

to the figures for yield. With more stabilized conditions and changes in administration the proportions should be considerably different.

Recommendations of the commission.—The American Commission failed to approve the tax on gross income or turnover, on the ground that the great differences in the relation between gross and net income, not only as among different branches of industry and trade, but also among firms in the same line of business, rendered it unsound as the principal means of taxing business. The Government was asked to consider these inequalities and to look forward to a time when other taxes on business might be substituted for the turnover tax.

It was recommended that changes in practice should be introduced. The smallest concerns should be set free from the requirements of the turnover tax, and subjected only to the license tax. It was argued by the commission that the total collection from the smallest turnovers was a small proportion of the total yield, and that it was in large measure swallowed up by the costs of assessment and collection. The license tax was held to be a form of taxation better adapted to the case of small dealers and producers than the tax on gross income.

The commission advocated a uniform rate of tax on gross income or turnover. A number of reasons were given, one of the most forceful of which was the amount of special accounting and effort to obtain discrimination which the existing series of rates made necessary. One and one-half per cent was suggested as a maximum for a general rate.

The tax in Italy.—The Italian sales tax was imposed in accordance with a royal decree signed on February 24, 1921. It applied to transfers of goods between manufacturers, traders and merchants, to certain luxuries, hotels and restaurants, and to other receipts.

Under the Fascist Government the original low rates were increased and the scope of the tax was enlarged. The tax imposed in 1927 was a general turnover tax levied at one-half of one per cent in the case of raw materials and 1 per cent in the case of other commodities and services, with the exception of luxury articles, which were subject to a rate of 2 per cent.

The yield of the turnover tax remained modest, although it improved under the revisions. The per cent of the total tax revenue of Italy yielded by the turnover tax has stood as follows:

<i>Fiscal Year</i>	<i>Per Cent of Tax Revenue from Turnover Tax</i>
1921-22	1.2
1922-23	2.6
1926-27	5.8

The Austrian turnover tax.—The turnover tax was introduced into Austria on April 1, 1923, when a rate of 1 per cent was imposed on deliveries of goods and services by industrial establishments. A tax of 12 per cent was imposed on luxury goods. Articles for export were exempted from the turnover tax.

When financial reconstruction under the auspices of the League of Nations was being carried on in Austria, the turnover tax proved to be a valuable device for furnishing a dependable revenue at a time when other important taxes were falling behind because they were not adapted to existing conditions. The Commissioner-General for Austria commented on the turnover tax as follows:⁶

The *tax on commercial transactions* is the most important of all the sources of Federal revenue. Its yield was estimated at 450 milliards in the 1923 budget and has been raised to 1400 milliards for 1924.

It should not be forgotten that the tax on commercial transactions

⁶ *Eleventh Report of the Commissioner-General of the League of Nations for Austria* (Geneva, 1923), p. 40.

was only actually put into force on April 1st [1923], and that until recently it has not been possible to collect it in full, the difficulty of collection being particularly marked during the first few months.

Increased rate.—An increase in the rate from 1 to 2 per cent was made in 1923 and became effective on January 1, 1924. The tax remained a prime support of the budget. It produced 20.9 per cent of the total tax revenue in 1925, and it was estimated to produce 22.1 per cent in 1926. According to expert opinion the turnover tax is "one of the mainstays of the budget; it produces 200 million schillings annually, is found to be not too oppressive, and the costs of administration are very small."⁷

The tax in Hungary.—The sales tax in Hungary had a very different history from that of its sister state, Austria, although Hungary was undergoing financial reconstruction and receiving international assistance at about the same time. The Hungarian tax was introduced on September 1, 1921, before financial disorganization had overtaken the country. At that time a tax of 1.5 per cent was imposed on sales of goods and services, with the usual exemptions for agricultural commodities, as well as for the transactions involved in hunting, fishing and forestry.

When financial reconstruction was begun, in 1924, a rate of 3 per cent was in force. The Financial Committee of the League of Nations thought this too high, but, on account of the importance of the receipts in that difficult period of Hungary's national life, recommended that the reduction should take place only after some time had elapsed. The rate was brought down to 2 per cent after some months. Under this rate the proportion of the revenue furnished by the turnover tax decreased. In

⁷ League of Nations, *Financial Reconstruction of Austria: General Survey and Official Texts* (Geneva, 1926). p. 127.

1924-25 the tax furnished the almost unprecedented proportion of 27 per cent, while in 1925-26 and 1926-27 its share fell to about 18 per cent. The smaller share, however, represents an important part of the Treasury receipts, one which the country could not give up at this time.

Other European countries which have utilized the sales tax since the end of the World War are Portugal, Rumania, and the Serb-Croat-Slovene state. The Scandinavian countries have failed to make use of this type of taxation.

The Canadian sales tax.—Although Great Britain and the United States have not utilized the general sales tax in their post-war adjustments, Canada has made use of it, and the Canadian experience furnishes a valuable example of the sales tax in a different type of industrial society.

Canada, like nearly every other country, was hard pressed for revenue in 1919 and 1920, and on May 19, 1920, the sales tax law was passed. By the terms of this law a tax of 1 per cent was imposed on all sales by manufacturers and wholesalers which were not specifically exempt. It was intended that the tax should rest with a weight of at least 2 per cent on goods sold for consumption. Accordingly, sales made by manufacturers to wholesalers or jobbers were taxed at 1 per cent and sales by wholesalers or jobbers to retailers or consumers were taxed again at 1 per cent.

Method of the tax.—The two essential points in the Canadian sales tax law were these: it was a manufacturers', producers', wholesalers' and jobbers' tax, not a retail sales tax or a general turnover tax; second, it was intended to produce at least 2 per cent on goods as they reached the consumer, whatever the route by which they came into his hands. The tax might, of course be far greater than 2 per cent. It might be even 8 per cent or

10 per cent. If the manufacturer paid a sales tax on the materials used in making his product, one tax was added; if he used semi-finished goods, another tax was added; if the manufactured goods then passed through the hands of both wholesaler and jobber before they reached the retailer, another tax was added, and so on. The 2 per cent tax was a minimum, but there was no maximum.

Exemptions.—The list of exemptions under the Canadian act was significant. The act specifically exempted bread, flour, meat, poultry, milk, butter, grain, fish and a long list of other articles of normal food consumption. Fuel of all kinds, lumber and a number of its products, newspapers and a variety of other commodities which were believed to need this type of relief were included in the exemptions.

The exemption of food and fuel was a far-sighted step on the part of the Canadian Parliament and one which had a considerable part in making the sales tax acceptable to the public. In this way the weight of the tax, which was to be increased by heavier rates in a way which was not foreseen when the original list of exemptions was made out, was kept from two of the prime necessities of life, and was placed where it could more easily rest—on manufactured commodities.

The only essential articles of existence which felt the tax in full force were the clothing items, and expenditure for this purpose is only a small part of the ordinary family budget. Such exemptions are justifiable from an administrative and social point of view, if not from a fiscal one.

Changes in rates.—The rates of 1 and 2 per cent which were imposed by the law of May 19, 1920, did not remain long in force. In May, 1921, the rates were raised to 1.5 and 3 per cent, and an additional 1 per cent was added for importations by retailers and consumers, so that their

rate became 4 per cent. In May, 1922, the rates were raised to 2.25 per cent for manufacturers' sales to jobbers, 4.5 per cent for sales made directly by producers to consumers, and 6 per cent for importations.

In 1924 a number of changes, in which a change of rate was only incidental, became effective. The experience with the law had showed that the cumulation of the tax in the case of such commodities as shoes, which passed through the hands of several producers in the course of manufacture, was not so harmless as the framers of the original act had thought. A considerable amount of evasion and of legal escape was also discovered.

Revision in 1924.—Under the law effective on January 1, 1924, the sales tax was made purely a manufacturers' tax and a rate of 6 per cent was imposed. Raw materials and goods to be manufactured were no longer liable to the tax. It was intended that the sales tax should be laid on an article only once, and that the final producer should be responsible for the payment. Under this law importations also were taxed at 6 per cent.

Other decreases followed. Canada's financial recovery showed many parallels with that of the United States, and revenues increased, expenses decreased, and reductions were in order. Income tax cuts and sales tax cuts were made. The sales tax dropped by 1 per cent a year, to 4 per cent in 1927 and 3 per cent in 1928. It was generally believed in 1928 that the program involved further reductions and final elimination of the sales tax.

Yield of the Canadian tax.—The Canadian sales tax, like nearly every sales or turnover tax of whatever character except that of Italy, has been imposing. It has at times surpassed the income tax in productivity, and has yielded more than 25 per cent of total government receipts.

In spite of its great productivity, protests against the Canadian tax are frequently made. The inconvenience to the manufacturers apparently persisted beyond the first years. It was claimed that it operated unequally among manufacturers, and that it handicapped exportations of certain manufactures to the United States. It was held that it increased the cost of living of farmers and wage earners in the Dominion, a statement which is unquestionably valid, but one which loses a part of its force in a country with so high a general standard of living as Canada.

Movement for reduction.—In 1926 and 1927 there was in Canada a vigorous sentiment for the substitution of a low general turnover tax, preferably at 1 per cent, for the wholesalers' tax. In other quarters there was a movement for the elimination of the tax. A comparison with other countries indicates that there is some ground for the dissatisfaction in Canada, for it was clear that in spite of the large yield the Canadian tax had not yet fitted into the fiscal system with the ease which had characterized some of the European countries.

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The sales tax is one of those treated in H. Patzauer, *Die öffentlichen Abgaben Österreichs* (Vienna, 1925). The summaries of the financial reconstruction work under the League of Nations, *The Financial Reconstruction of Austria: General Survey and Principal Documents* (Geneva, 1926), and *The Financial Reconstruction of Hungary: General Survey and Principal Documents* (Geneva, 1926), contain valuable allusions to the development and use of sales taxes in Austria and Hungary respectively. *The Reports Submitted by the Commission of the American Financial Experts Headed by Dr. E. W. Kemmerer* (Warsaw,

1926) include an excellent analytical and critical account of the Polish turnover tax.

The major part of the detailed information is to be found in periodicals and in official or semi-official pamphlets. One of the most valuable of the latter is the *Excise Tax Pamphlet* (Toronto) issued from time to time by the Canadian Manufacturers' Association. The *Reports on Economic and Financial Conditions* (London) made annually or at frequent intervals by commercial representatives in various countries to the British Department of Overseas Trade include comments on the operations of sales taxes.

CHAPTER XI

INHERITANCE TAXATION

Democratic character of inheritance taxation.—Although examples of inheritance taxation may be found in antiquity and in the Middle Ages,¹ the taxes of this kind with which modern parliaments are continually concerning themselves are essentially products of democracy and democratic taxation. At the outbreak of the World War the most productive and most firmly established inheritance taxes, the British death duties, were in the general form given in a revision made by Parliament in 1894; Germany was using an imperial inheritance tax introduced in 1906; France had an inheritance tax adopted in 1901; and the Federal Government of the United States, which had not held that inheritance taxes were a necessary or suitable source of revenue in times of peace, had utilized the principle of death duties from 1789 to 1802, 1862 to 1870, and 1898 to 1902. Before the outbreak of the European War the majority of the American States had inheritance taxes.

Use since 1914.—In the fiscal emergencies which have come since 1914 inheritance taxes have had a less spectacular rôle than income taxes and sales taxes. In the important countries, with the exception of Great Britain, in which they yielded a sixth of the total tax revenue, they occupied a minor place when the war began.

¹ See W. J. Shultz, *The Taxation of Inheritance* (Boston, 1926), and E. R. A. Seligman, *Essays in Taxation*, Ninth edition (New York, 1921).

The characteristics of the death duties which render them of little use to a war-time emergency program are their sluggishness in responding to changes in rates, and their low productivity even with the higher rates which modern countries have tried, progressive rates which approach 100 per cent for the largest properties. Income and sales taxes manifestly do not have these limits.

In spite of their limitations, inheritance taxes have undergone many changes in the course of the past few years. Rates have been made heavier and bases have been more carefully defined. Within their limits, these taxes show some of the tendencies which have been found in income taxes since 1914.

Degree of elasticity.—The great difference in elasticity in times of emergency between income taxes and death duties is illustrated by the changes in these taxes in Great Britain during the war. The table from which these examples are taken appears in a detailed study of British war finance.²

	—Index Numbers—	
	<i>Income Tax</i>	<i>Death Duties</i>
1913-14	100	100
1914-15	147	104
1915-16	273	115
1916-17	436	115
1917-18	511	118
1918-19	619	111
1919-20	760	149

The death duties are shown to be sluggish and incapable of expansion in an emergency. The income tax can be multiplied six and seven times within a comparatively short period, while death duties, even with such pressure as was put upon them in Great Britain, do not even double in yield.

² H. F. Grady, *British War Finance* (New York, 1927), p. 79.

Position in the principal countries.—The table given below shows the position of death duties in the principal modern countries. In the case of Great Britain the revenue from these duties is roughly double the pre-war revenue, but the proportion of the total tax revenue which they yield has declined by one-half, on account of the unparalleled increase in the income tax. In the United States no federal inheritance tax was in force at the beginning of the war.

Their modest fiscal position has not prevented inheritance taxes from becoming as fruitful a field for agitation for revision or appeal as the most important forms of revenue. The existing antipathy to this kind of taxation was illustrated when the Fascist Government, early in its career, abolished taxes on inheritance in the direct line on the ground that the abolition would "strengthen the family, an institution indissolubly bound up with the moral unity of the nation, encourage thrift, and promote the formation and conservation of small properties."

USE OF DEATH DUTIES IN PRINCIPAL COUNTRIES ³

<i>Country</i>	<i>Percentage of Total Tax Revenue Derived from Death Duties</i>
Great Britain, 1926-27.....	9.8
France, 1926.....	5.7
United States, 1926-27.....	3.3
Germany, 1927.....	.9
Italy, 1926-27.....	.6

The figures show that Great Britain stands considerably ahead of the other large countries in its use of death duties as sources of revenue. Great Britain is, of course,

³ Estimates given in League of Nations, *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), pp. 200-1, 228-9, 245-6, 305-6, 461.

the one western country in which large landed estates have successfully resisted dissolution until recently. It is also the country conspicuous, as the world's financial center, for large fortunes held in intangibles. Such an economic background, combined with a fiscal tradition which encourages direct taxation, makes possible Great Britain's emphasis upon death duties. France and the United States are outside any such explanation as this. Their reliance upon inheritance taxes as fiscal measures, however, is slight.

Nature of inheritance taxes.—The principal types of inheritance taxes may be illustrated by the British death duties as they stood after the revision of 1894.

Estate duty: a duty on the aggregate capital of the real and personal estate passing at death. The older *probate*, *inventory* and *account* duties were merged with this duty under the Act of 1894.

Legacy duty: a duty on shares of personal property (not "settled") received by the heirs; that is, shares arising under will or intestacy.

Succession duty: a duty on shares of real property received through "settlement."

In the United States the two familiar types are the *estate taxes* levied by the Federal Government under the various war revenue acts and the *inheritance taxes* used by the majority of the states. The latter, which apply to the distributive shares, are easily adjustable to the degree of consanguinity.

Justice of the tax.—Inheritance taxes meet satisfactorily the test of "ability to pay." If suitable exemptions are provided for the benefit of persons who were dependent for support upon the decedent prior to his death, the payment of the tax does not come out of the current income of any taxpayer, nor does it reduce his capital. It merely gives him a smaller amount of a more or less un-

expected gift of capital than he would otherwise have received. Such taxes can obviously be steeply progressive. For much the same reason the tax meets the traditional canon of "convenience." There is no more convenient time or manner for paying a tax than as a segment of a gift which is about to be received.

The antipathy to inheritance taxes which is frequently found is due less to fiscal than to general social considerations. There is something in the taxation of property passing at death which suggests the destruction of the life-work of estimable citizens. Why the state is less justified in taking the property after death when no injury can be felt than before death is not made clear by opponents of the tax. Little proof has ever been advanced of the loss of incentive for accumulating property where inheritance taxes exist. This has been confused with skill in evading the tax, and in disposing one's self and one's property in those places in which taxation will be least onerous. The technique of avoiding the tax has been highly developed, particularly in the American states; but this should not be mistaken for an unwillingness to become rich.

Defects of inheritance taxes.—The characteristics which prevent inheritance taxes from becoming prime sources of revenue, year in and year out, in peace times and in war, are not ordinarily recognized in the arguments for the reduction or abolition of the rates. They are two: the taxes are extremely slow in giving up their proceeds to the Treasury, and the amount of capital passing at death in a given year in any political unit is ordinarily too small, even with the highest tax rates used, to furnish more than a small fraction of the government's necessary revenue.

The arguments used against the federal tax in the United States are of two kinds: those which are based on the assumption that inheritance taxes are the peculiar

province of the states, and arguments which have much to justify them in law and precedent and little in modern business organization; and considerations of the following type, which in the particular case cited are somewhat surprisingly coupled with the contention that the individual states should make use of the method here described as undesirable:⁴

Estate taxes, carried to an excess, in no way differ from the method of the revolutionists in Russia. Yet many responsible statesmen in this country, for the sake of increasing revenues by a comparatively small amount, would raise the inheritance tax rates [from 25 per cent to 40 per cent, the rate then in force in Wisconsin] and commit this country to a policy of confiscation of wealth.

Confusion among American states.—Among the American states, 45 of which had inheritance taxes at the beginning of 1928, confusion developed which was almost without parallel in the taxation field. It seemed to be beyond help from any remedy which was in sight. The suggested repeal of the federal estate tax would scarcely affect the situation, as it would leave untouched the conflicts among the states, and as the federal revenue from that source was already too small to assist the principal states, New York, for example, which was already getting about \$25,000,000 a year from its inheritance tax in 1927, would find its share of the property released from taxation by the federal government too small to figure on its scale.

The confusion among American states was illustrated by the inheritance tax list of the Harkness estate, a net estate of \$103,232,048 which was administered in the State of New York after the death of Mrs. Stephen V. Harkness in 1926. The estimated taxes paid were as follows:⁵

⁴ A. W. Mellon, *Taxation: the People's Business* (New York, 1924), p. 122.

⁵ These figures are taken from F. W. Ganse's article "Inheritance Taxes on the Harkness Estate" in *Barron's*, Feb. 1, 1928.

Federal (estimated).....	\$12,368,541.00
New York.....	3,738,246.95
New Jersey.....	714,326.77
Ohio.....	361,966.61
California.....	258,148.49
Indiana.....	242,256.09
Kansas.....	223,552.72
Kentucky.....	45,758.40
Maine.....	45,758.40
Montana.....	15,334.23
Illinois.....	12,461.10
Michigan.....	7,862.04
Missouri.....	1,000.51
West Virginia.....	697.20
<i>Total</i>	\$18,035,910.51

These taxes formed about one-sixth of the net estate, and indicate the maximum practicable under existing conditions. Such a maximum was, obviously, far from complete "confiscation."

The movement against estate taxes.—The federal estate tax has been attacked on the grounds that it furnishes only a small portion of the revenues of the government of the United States, while inheritance taxes form a large part of state revenues; and that it is properly a war tax only.

In his Annual Report for 1927, the Secretary of the Treasury recommended the repeal of the federal estate tax, saying that by tradition and legal theory this tax belonged to the states. The Secretary stated that as the national debt is paid off the burden of Federal taxes should grow lighter,⁶ while it was impossible to foresee the point at which the upward movement of state and local expenditures would be arrested. Moreover, federal taxes were fairly well diversified and bore some relation to the

⁶ This prophecy represents a change of opinion since the writing of the report of the previous year, in which Mr. Mellon stated that "it does not seem probable that we can contemplate a reduction in Government expenditure in the next few years" (page 7 of the 1926 report).

taxpayer's ability to pay, while state and local taxes rested on altogether too narrow a base. The Secretary's conclusion was that the Federal Government should retire from the field at once.

It was estimated in this report that on account of an 80 per cent credit on account of inheritance taxes paid to the states the loss in revenue in 1929 would not be more than \$7,000,000. The credit provision for state inheritance taxes paid appeared in the Revenue Act of 1924, with an allowance of 20 per cent; and in the Revenue Act of 1926, with an allowance of 80 per cent, as follows: "The tax imposed by this section [Section 301] shall be credited with the amount of any estate, inheritance, legacy, or succession taxes actually paid to any State or Territory . . . The credit . . . shall not exceed 80 per centum of the tax imposed by this section."

National tax association's report.—One of the most important of the requests for repeal came from the National Committee on Inheritance Taxation appointed by the National Tax Association in 1924. In the committee's report, made in 1925, the recommendation was worded as follows:⁷

Legislation should be enacted during the next session of Congress providing for repeal of the federal estate tax to take effect six years from the date of the passage of the repealing act.

Although the committee, in view of these very cogent arguments, has reached the unanimous conclusion that the federal estate tax should be repealed and that legislation providing for such a repeal should be enacted at the next session of Congress so as definitely to settle this important question, it is constrained to conclude, in view of the circumstances surrounding the present inheritance-tax situation in the states, that the repealing act should not become effective until at the expiration of six years from its passage.

Several movements recently inaugurated designed to accomplish uniformity among the states are just beginning to show results. The committee fears that the immediate repeal of the federal tax, which

⁷ Report of the National Committee on Inheritance Taxation (1926), pp. 22, 25-26.

would leave the field wide open for such legislation as the states might see fit to adopt, might retard these movements and that the present confusion in existing state laws might become worse confounded. By the retention of the tax for a period of six years, however, and the adoption of changes in the present federal law, which are treated elsewhere, in this report, the federal statute may have the effect of promoting uniformity.

The legislatures of most of the states meet biennially, and only nine states have regular legislative sessions in 1926. The other states, in the absence of special sessions, cannot even consider proposed changes in their laws until 1927. Legislative bodies ordinarily move slowly and it will certainly require more than one session of the legislature to secure the desired changes in some of the states. It will take at least six years, therefore, to accomplish a substantial uniformity among the states, but the committee is convinced that once order is established, the Federal Government may retire with little danger of return of the present chaotic conditions.

The American federal tax.—In 1916 an estate tax was passed by Congress without serious opposition on account of the agitation for preparedness for war which was then gathering strength. The rates of the various federal taxes may be summarized as follows:

<i>Revenue Law</i>	<i>Exemption</i>	<i>Rates (Per Cent)</i>
1916	\$50,000	1-10
1917 (1)	50,000	1.5-15
1917 (2)	50,000	1-25
1918	50,000	1-25
1921	50,000	1-25
1924	50,000	1-40
1926	100,000	1-20

The rates of the estate tax imposed by the Federal Government were substantially modified by the Revenue Act of 1926, which was approved and effective, except as otherwise provided, on February 26, 1926. The maximum rate was reduced from 40 per cent upon the excess above \$10,000,000, as under the Revenue Act of 1924, to

20 per cent upon that excess; the exemption was increased from \$50,000 to \$100,000, and the various rates were made applicable only to the amounts within the respective brackets in excess of the exemption instead of to the entire estate. The credit allowed against the federal estate tax for state inheritance taxes paid by an estate, a new feature of the Act of 1924, was increased from 25 per cent of the federal tax to 80 per cent of that tax. Under a retroactive provision of the Act of 1926 the estate tax rates of the Act of 1921 were substituted for those of 1924, for the estates of persons dying while the 1924 act was in effect.

The Revenue Act of 1926 repealed the gift tax, which was introduced in 1924 with rates similar to those of the estate tax. The taxation of gifts had been adopted on account of the belief that under the high rates of the estate tax there was an incentive to escape by distributing property so as to avoid the tax on the estate and on gifts in contemplation of death. The gift tax was paid by the donor on or before March 15th on the aggregate of gifts made in the preceding calendar year.

Yield of the federal tax.—The yield of the federal estate tax is shown on page 164.⁸

This table shows that the revenue from the estate tax began to decline in 1924, and that after a slight improvement in 1925 and 1926, when a 40 per cent maximum was temporarily in force, it again declined. On account of the 80 per cent credit for inheritance taxes paid to the states, the yield was expected to decline still further. In his Annual Report for 1927 (page 52) the Secretary for the Treasury made the following statement:

⁸ Figures taken from the *Annual Reports of the Secretary of the Treasury*, 1926 and 1927. Those for 1925 and 1926 include gift tax receipts of \$7,518,100 and \$3,175,300 respectively.

Owing to the 80 per cent credit on the taxes paid the States it is estimated that in five years the Federal estate tax will not produce more than \$20,000,000. Should it be repealed, the loss in revenue in the fiscal year 1929 will not exceed \$7,000,000.

Year	Total Tax Revenue (Millions of Dollars)	Estate Tax	
		Yield (Millions of Dollars)	Per Cent of Tax Revenue
1917	1035	6	.6
1918	3879	47	1.2
1919	4024	82	2.4
1920	5728	104	1.8
1921	4905	154	3.1
1922	3570	139	3.9
1923	3186	127	4.0
1924	3341	103	3.1
1925	3137	109	3.5
1926	3417	119	3.5
1927	3475	100	2.9

From a fiscal point of view the inheritance tax discussions carried on in the United States have been poor in quality. Undoubtedly the casual, erratic, and sentimental treatment will continue to exist, for it is to be found in all countries. The indispensable requirement for a fiscal analysis is a recognition of the inheritance tax as poor and small in yield, sluggish in response to changes, and least adapted of all the large modern taxes to emergency use.

BIBLIOGRAPHICAL NOTE

The history of inheritance taxes in the principal countries, including the United States, is well outlined in W. J. Shultz, *The Taxation of Inheritance* (Boston, 1926), and in a volume published before the war, Max West, *The Inheritance Tax* (New York, rev. ed., 1908). The *Annual Reports of the Secretary of the Treasury* (Washington) furnish complete figures and readable material on this subject. The present Secretary's point of view is vigorously presented in A. W. Mellon,

Taxation: The People's Business (New York, 1924). The *Report of the National Committee on Inheritance Taxation*, made to the National Tax Association in 1924, (New Orleans, 1925) is in its essence a recommendation for reform in the United States. An account of inheritance tax theory is given in E. R. A. Seligman, *Essays in Taxation* (New York, 1895; revised edition, 1921).

1925

CHAPTER XII

INHERITANCE TAXES IN EUROPE

The British death duties.—The British death duties are, in general, more severe than those of any other modern industrial country. The following abbreviated scale indicates their broad base, for they begin at £100 (\$500) instead of \$100,000, the point at which the American federal tax now begins. The American state taxes, which have no British equivalent, start at lower amounts. The British maximum rate was 40 per cent in 1927, as compared with 20 per cent in the United States.

<i>Principal Value of the Estate</i>			<i>Rate per Cent (1927)</i>
Above	£100 and not above	£500...	1
Above	500 and not above	1,000...	2
Above	1,000 and not above	5,000...	3
Above	5,000 and not above	10,000...	4
.....			..
Above	21,000 and not above	25,000...	9
.....			..
Above	1,500,000 and not above	2,000,000...	35
Above	2,000,000.....	.....	40

This schedule indicates that at a point just above \$100,000, where the net estate in the United States is paying 1 per cent, the British estate is paying 9 per cent.

The yield of the death duties in Great Britain has been absolutely and relatively larger than in the United States, as the following table shows. In recent years the American taxes have yielded from one-half to one-third as

much as the British taxes. In this connection also it should be remembered that there are no local taxes in Great Britain corresponding to the state inheritance taxes in the United States.

YIELD OF BRITISH DEATH DUTIES, 1914-26

Year	Total Tax Revenue (In Thousands)	Death Duties ¹	
		Yield (in Thousands)	Per Cent of Tax Revenue
1913-14	£163,036	£27,166	16.7
1914-15	190,054	28,543	15.0
1915-16	290,873	30,937	10.6
1916-17	516,513	31,193	6.0
1917-18	614,283	31,735	5.2
1918-19	786,803	30,800	3.9
1919-20	1,000,887	42,760	4.3
1920-21	1,024,967	47,181	4.6
1921-22	842,084	52,521	6.2
1922-23	762,124	56,494	7.4
1923-24	702,198	57,557	8.2
1924-25	676,774	58,917	8.7
1925-26	665,112	61,330	9.2

The table shows that the absolute yield of the death duties grew steadily from 1913-14 until 1925-26, except for a slight decrease in 1918-19. The relative yield, however, declined steadily until 1918-19, and then began to improve. At the beginning of the period the death duties were yielding one-sixth of the total British tax revenue, a proportion which has probably not been surpassed in the history of modern states. The decline, which was not absolute but relative, since it was due primarily to the great expansion of the income tax and in part to the increased use of other types of taxes, continued until in the three years just after the end of the war death

¹ Includes estate, legacy, and succession duties.

duties furnished only about 4 per cent of the revenue. The subsequent improvement, which was both absolute and relative, brought the death duties almost to one-tenth of the tax revenue in 1925-26.

✓ **Effects of the death duties.**—The effects of death duties were ably discussed by the Committee on National Debt and Taxation which reported to the British Parliament in 1927.² First, the effect on *savings*, as compared with the income tax, was inquired into. They concluded that the estate duty was more damaging than an equivalent amount of income tax taken *pro rata* from the various grades would be. The effect on *enterprise* appeared to them not so serious as the effect of the income tax.

Taking psychological effects, rather than purely physical effects, into account, the two opposing questions which should be asked are these: How much does the estate duty stimulate people to work and save? How much does it discourage people from working and saving? The psychological effects, upon analysis, prove to be comparatively slight. Death duties neither stimulate nor encourage work or saving.

Agrarian opposition.—Although agricultural land was excluded when the scale of graduation for the death duties was made steeper under the Finance Act of 1925, it is claimed by agrarian interest in Great Britain that the cumulative effect of death duties is one of the chief causes of the break-up of the landed estates. Agricultural landowners are said to have accepted a lower return in the capital represented by the estate than investors of other forms of capital demanded, and later, given a valuation figure which was not based on the net return and which was disproportionately large, to have parted with

² *Report of the Committee on National Debt and Taxation*, (Cmd. 2800), 1927, pp. 189-194.

the most easily saleable lots in the case of a forced sale.

The portions of land left on the owner's hands, in such instances, have almost always included the mansion house, which has small value if it is not part of an adequate and workable agricultural estate. The result, according to rural critics of the death duties, is a situation in which few estates can survive more than two or three generations unless other resources are available.

The effect upon agriculture is then unfortunate. At the passing of an estate by death the tenant must frequently buy the land if he is to preserve his home. If he borrows to do this, he lacks working capital for the land, and there is no one to carry on the function of the former landlord in supplying capital.

The French succession tax.—At the opening of the European War successions in France were taxed according to a graduated scale of 1 to 29 per cent, under which discrimination was made according to the degree of consanguinity. The first change was made in 1917, when the rates were raised to a maximum of 36 per cent and estate and gift taxes were introduced into the system. The tax contained a reflection of the national concern for the birth rate in the provisions for a smaller total estate rate for three or two children than for one. The succession taxes have since been changed several times. Under the Finance Act of 1921 the maximum on the share of any beneficiary was set at 80 per cent. Under the laws passed on August 3 and August 7, 1926, to remedy the financial crisis of 1926, the rates were slightly modified to increase the receipts from small and medium estates.

The yield of the French taxes on inheritance have increased as shown in the table on page 170.

This is a higher yield, relatively, than that of any of the other large commercial countries except Great Britain.

YIELD OF FRENCH SUCCESSION DUTIES ³

Year	Total Tax Revenue (Millions of Francs)	Succession and Gift Duties	
		Yield (Millions of Francs)	Per Cent of Tax Revenue
1921	17,512	896	5.1
.....			
1925 ⁴	28,060	1765	6.3
1926 ⁴	33,329	1885	5.7

It is also significant that so high a return is possible in a country whose citizens are traditionally tenacious of property rights. The increase of 1925 and 1926 over 1921 was slight, but it indicated that present-day France has no intention of lightening the inheritance burden as a whole.

The German imperial tax.—The German death duties were not changed until 1919, when an estate duty of 1 to 5 per cent and a legacy and successions duty of 4 to 70 per cent were imposed. A period of active agitation for “democratic” taxation followed, and it seemed probable that the rates were to be increased when the emergencies of the inflation period transformed the revenue system. In 1922 the estate tax was abandoned and the inheritance tax rates were reduced. At the same time exemptions were changed and the maximum rate was reduced. Other reductions followed, and when the Dawes Committee made its survey of the budget in 1924 it criticized the death duties in the following terms: ⁵

The yield from these duties is extraordinarily low judged by almost

³ League of Nations, *Memorandum on Public Finance, 1921* (Geneva, 1922), p. 44; *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), pp. 200-201.

⁴ Estimated.

⁵ *Report of the First Committee of Experts*, April 9, 1924, Part II, Paragraph III (5).

any standard. It is not satisfactorily accounted for by the temporary depreciation in capital values which is due to lack of profits and trade output. Not only is the total yield low judged by any test as to capital values, but the actual rates of duty being imposed are also, in the committee's judgment, inadequate. While not unmindful of the effect of the relation between these duties and the capital tax in general, the committee thinks that the position disclosed in the following table, compiled by the German Government, indicates that there is considerable room for increased taxation under this head. It will be observed that where the rate in Germany is nominally higher than that in other countries, it is in those scales where the tax may be least influential in its effect upon total yield.

The table prepared by the German Government for the Dawes Committee was the following:

FISCAL BURDEN CONSTITUTED BY THE DEATH DUTIES IN GERMANY, BELGIUM, GREAT BRITAIN, AND FRANCE

[Burden expressed in percentage]

<i>Property Left (in Gold Marks) ⁶</i>	<i>Germany</i>	<i>Belgium</i>	<i>Great Britain</i>	<i>France</i>
WIFE AND THREE CHILDREN				
20,000.....	1.5	2.1	3.0	3.5
200,000.....	2.9	2.7	5.0	6.1
2,000,000.....	5.9	3.8	15.9	11.5
6,000,000.....	7.5	4.8	22.8	14.4
BROTHER				
20,000.....	7.8	8.3	3.0	23.3
200,000.....	17.4	11.4	5.0	36.0
2,000,000.....	30.0	17.0	19.2	50.1
6,000,000.....	30.0	22.2	25.9	56.2
PERSON NEXT OF KIN				
20,000.....	18.2	16.7	3.0	36.8
200,000.....	40.6	22.8	5.0	48.3
2,000,000.....	70.0	34.8	23.5	61.0
6,000,000.....	70.0	44.5	29.8	66.5

⁶ The foreign currency has been converted into gold marks on the basis of the average rates of exchange quoted for the currency at issue on the Berlin Stock Exchange in the month of January, 1924. According to these quotations 1000 gold marks were equivalent to—55.5 pounds sterling in round numbers, or 5000 French francs in round numbers, or 5550 Belgian francs in round numbers.

Yield of the German duties.—Increases followed the experts' criticisms of the tax system, and the maximum rates again reached 70 per cent. In August, 1925, the maximum was reduced to 60 per cent. The yield of the German death duties in recent years has been as follows:

YIELD OF GERMAN DEATH DUTIES ⁷

Year	Total Tax Revenue (Millions of Reichsmarks)	Death Duties	
		Yield (Millions of Reichsmarks)	Per Cent of Tax Revenue
1924-25	7322	26	.4
1925-26	6856	27	.4
1926-27 ⁸	6685	60	.9
1927-28 ⁸	7480	100	1.3

This is a negligible yield, one which is of no importance fiscally. Any tax which produces less than 1 per cent of the government's total tax revenue, as the German death duties did before 1927-28, or as little above 1 per cent as the estimates for 1927-28 indicated, raises the questions whether the returns pay for the cost of administration, and whether the irritation caused the taxpayer is compensated for by any financial gain to the government.

Italian inheritance taxes.—Inheritance taxes in Italy held a modest place in the central tax system after 1862 and they were not immediately utilized to supply war revenue. The first expansion came in 1918 and 1919, and other increases followed. When the Fascists came into power in 1922 the maximum rate was 75 per cent,

⁷ League of Nations, *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), pp. 228, 229.

⁸ Estimated.

with an additional 5 per cent in the case of collateral heirs who already possessed certain property. Since the state took over the entire property of intestate decedents, it was claimed that full confiscation was a characteristic of the inheritance tax system. The increases in rates had brought improved revenue, but the yield failed to reach 3 per cent of the total tax revenue—a fact which recalls the limitations on inheritance taxation set forth above.

When the methods of government changed after the *coup* of 1922 the scale of inheritance taxation was one of the first to feel the new theories. Taxes on bequests to direct descendants were abolished and other inheritance duties were reduced to a maximum of 50 per cent. The government announced that the changes would end serious losses to Italy which had resulted from the scattering of family fortunes, encourage the accumulation of property, and strengthen the family.

The yield in Italy.—The yield of Italian death duties before and after the change of policy, was as follows:

YIELD OF ITALIAN DEATH DUTIES ⁹

Year	Total Tax Revenue (Millions of Lire)	Death Duties	
		Yield (Millions of Lire)	Per Cent of Tax Revenue
1921-22	9,155	247	2.7
.....		...	...
1923-24	14,962	257	1.7
1924-25	15,800	117	.7
1925-26 ¹⁰	15,590	100	.6

⁹ League of Nations, *Memorandum on Public Finance, 1922* (Geneva, 1923), p. 90; *Memorandum on Public Finance, 1922-1926* (Geneva, 1927) pp. 305-6.

¹⁰ Estimated.

The table shows that the yield of inheritance taxes in Italy was negligible even before the Fascist reform was made. No appreciable fiscal loss has been felt by the Treasury when the taxes were made more insignificant.

Stability of inheritance taxation.—The survey of the principal commercial countries shows that inheritance taxation has changed little in the last few years, and that, with the exception of the United States, these countries have not regarded the taxes as emergency measures. The sluggishness of the returns and the quantitative limitations of inheritance taxes prevent their general use as war revenue measures.

Within the small fiscal scope of these taxes, however, it is clear that the practices of the countries vary considerably. Great Britain, a country with large property rights and a political tradition which permits democratic taxation, uses the taxes to the full. France, with only the former of the two qualifications, also depends heavily upon the tax. The situation in the United States is confused on account of the breadth of the taxing powers of the individual states, but presumably this country occupies a middle ground. In Italy, where inheritance taxes have been cut so as to become negligible, they seem about to disappear; but in Germany, where the revenue is small, the tendency is to increase.

Under existing conditions Great Britain is probably using the tax to the maximum (8 or 9 per cent of the total tax revenue). It is unlikely that inheritance taxation can be forced to a higher level than this without causing social unrest.

BIBLIOGRAPHICAL NOTE

The most serviceable book on the development and present status of inheritance taxation in the various countries is W. J. Shultz, *The Taxation of Inheritance* (Boston, 1926). An earlier volume of the same type is M. West, *The Inheritance Tax* (New York, rev. ed., 1908).

The figures showing the yield of the taxes, accompanied by brief interpretations, are found in the League of Nations *Memorandum on Public Finance, 1922-1926* (Geneva, 1927). The *Report of the First Committee of Experts*—the Dawes Report—(Paris, 1924) contains a penetrating and critical analysis of the German death duties. A helpful description of the Italian situation is given in C. E. McGuire, *Italy's International Economic Position* (New York, 1926). For this tax, as for many others, the British Department of Overseas Trade *Reports on Economic and Financial Conditions* of various countries are extremely valuable.

The British duties have been more fully described than those of any other country in this group. The Colwyn Report, *The Report of the Committee on National Debt and Taxation* (London, 1927), gives a theoretical analysis of the effects of the death duties. Other theoretical discussions are presented by J. Stamp, *Fundamental Principles of Taxation* (London, 1921), and J. A. Hobson, *Taxation in the New State* (New York, 1921). An earlier but clear summary is given by G. Armitage-Smith, *Principles and Methods of Taxation* (London, 1919).

CHAPTER XIII

EXCISES

Development of excises.—Excises, or internal duties on consumption, failed to develop as rapidly as income and sales taxes after 1914. If sales taxes are defined as excises such a generalization must obviously be modified; but the Continental practice of giving to the sales taxes separate classifications, in spite of the fact that they are general commodity duties levied internally, may safely be followed here.

Excises, being already well developed, could scarcely show a proportionate expansion; furthermore, while an income tax may be increased from 5 to 60 per cent and bring in a proportionately large return, such increases in excises do not ordinarily multiply the yield in the same way. It is in practice safer not to attempt them. Their properties of elasticity and quick responsiveness to changes in rates were, however, used to the full. In addition to quick sensitiveness and elasticity, excises up to a certain point are less irritating to the taxpayer than income taxes, as they are passed on to the consumer in the form of higher prices of consumers' goods.

Position in modern budgets.—The table given below shows the use of excises in modern tax systems. There is an unusual approach to uniformity in their use, for the three countries which use them most extensively utilize them for almost exactly one-fifth of the total tax revenue.

The countries which show smaller reliance upon excises have sales taxes which in a measure correspond to the excise group.

REVENUE FROM EXCISES IN PRINCIPAL COUNTRIES ¹

<i>Country</i>	<i>Percentage of Total Tax Revenue Derived from Excises</i>
Germany, 1926-27.....	20.6
Great Britain, 1926-27.....	20.4
United States, 1926-27.....	20.1
Italy, 1926-27.....	12.0
France, 1927.....	11.2

The best excises.—The experience of modern states has shown that under present-day conditions excises on beverages and tobacco products are the most productive and, all things considered, the most responsive to changes in rates and administration. The products represented are, strictly speaking, luxuries, and the taxes upon them cannot constitute a severe hardship upon the poorer classes if the taxes are not used to excess. The maximum of 20 per cent of the tax revenue which seems to have been almost unconsciously established in the larger countries indicates that there is now little tendency to over-emphasize excises as an element in the tax system.

Convenience of excises.—Certain excises, said Adam Smith in the *Wealth of Nations* in 1776, meet the test of convenience. His words were: "Taxes upon such consumable goods as are articles of luxury, are all finally paid by the consumer, and generally in a manner that is very convenient for him. He pays them little by little, as he has occasion to buy the goods."

¹ Estimates given in League of Nations, *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), pp. 200-1, 228-9, 245-6, 305-6, 461.

Elsewhere Adam Smith differentiates between excises on necessities and excises on luxuries.² A tax upon the necessities of life, he believes, operates in the same way as a tax upon wages, and by raising the cost of living raises wages. A tax upon luxuries, however, does not increase the cost of living. "A tax upon tobacco, for example, though a luxury of the poor, will not necessarily occasion any rise in the wages of labor." And again: "The rise in the price of porter, occasioned by an additional tax of three shillings upon the barrel of strong beer, has not raised the wages of common labor in London."

Limits of elasticity.—Since the incidence of excises is usually imperceptible, the rates can be sharply increased in case of need. In 1898, at the outbreak of the Spanish-American War, the United States doubled the taxes upon tobacco and fermented liquors, and obtained nearly double the amount of revenue.

Beyond a certain point, however, increases in the rates do not bring an increase in yield, and they may even diminish it. The high tax on distilled spirits during the American Civil War had such an effect, for after the tax was reduced in 1868, from \$2.00 to 50 cents a gallon, the revenue leaped from \$19,000,000 in 1868 to over \$55,000,000 in 1870.³ A similar assumption was made by deputations which approached the Financial Secretary of the British Treasury in 1927-28, stating that the duty on spirits, particularly on whiskey, caused a decrease in consumption and brought about unemployment in allied industries.

In general, the restrictive effect of high duties may be most clearly seen in duties on beverages. The maximum rates at which excises may be imposed without diminishing consumption can be determined only by experimenta-

² Adam Smith, *Wealth of Nations*, reprinted (London, 1909), Book V, Ch. II.

³ D. R. Dewey, *Financial History of the United States*, 8th ed. (New York, 1922), p. 393.

tion. There is little which can be learned about the effect of an excise upon one commodity which is transferable to another, and little that is transferable from one country to another, with the exception of the general limitations of duties on beverages.

American excises.—The United States depended upon excises for approximately one-half of its tax revenue from the installation of the internal revenue system in the course of the Civil War up to the time of the outbreak of the World War. The only important exception to the general practice was the use of an income tax on corporations which was adopted in 1909. This measure was called an excise, however, to bring it within the limits of the Constitution.

Excises are more prompt to respond to changes in rates than any other of the major groups of taxes. They may be made to expand within a few days or weeks, while income taxes and death duties ordinarily require months or years. Excises were therefore used promptly after the beginning of the World War, and before the United States became a belligerent country. In October, 1914, an act was passed which provided for increases in the taxes on beer and wines, for special taxes on tobacco dealers and manufacturers and on special classes of other dealers, for (Schedule A) stamp taxes on transactions and taxes on telegraph and telephone messages, express and freight rates and Pullman fares, and (Schedule B) stamp taxes on toilet articles and chewing gum.

It was necessary to change these provisions repeatedly. In December, 1915, the act was extended to 1916. In 1916 a new revenue act was passed which contained increases, particularly on spirits. The law also included a so-called "excise" on the profits of munition manufacturers, a tax which was in reality an income or profits tax. In the most drastic war revenue act, the Act of 1918, the taxes were arranged under 13 titles, all but two

of which (income and estate taxes) included indirect taxes of the general character of excises.

Decline of excises.—The following table shows the relative decline in the importance of excises in the United States. This is particularly conspicuous when the returns for the year 1905 or the year 1915 are compared with those for 1925. Before the World War excises yielded about one half of the tax revenue, as was pointed out above, while in 1925 they yielded about one-fourth. This relative decline occurred in the face of an absolute increase of from two to three times the pre-war yield, and was due primarily to the resort to income taxes by the federal government.

YIELD OF EXCISES IN THE UNITED STATES ⁴

Year	Total Tax Revenue (Millions of Dollars)	Yield of Excises	
		Millions of Dollars	Per Cent of Tax Revenue
1865	294	150	51.0
1875	267	110	41.2
1885	293	112	38.2
1895	295	143	48.5
1905	496	234	47.2
1915	625	336	53.8
1925	3139	822	26.2

Excises in 1927.—As the law stood in 1927 the excises included taxes on tobacco, distilled spirits and cereal beverages, a 3 per cent tax on automobiles, a 10 per cent tax on pistols and revolvers, and various other taxes called "internal revenue" duties in conformance with American terminology.

⁴ *Annual Report of the Secretary of the Treasury* (Washington, 1926), pp. 456-8, 473-6. Internal revenue receipts minus income, excess profits and estate taxes are assumed to be excise receipts.

The introduction of "prohibition" into the United States gave the post-war excise system a different appearance from that of the majority of European countries. In place of alcoholic beverages as the principal source of excise receipts, tobacco products appeared at the top of the list. The elimination of the receipts from beverages, with their extremely large yield, would probably not have been possible before 1913, when the income tax amendment to the Constitution was passed and the first permanent federal income tax appeared. Given an income tax, however, the federal government was assured that its receipts could take care of the gap left by the falling off of receipts from any other source.

Internal revenue receipts (excluding income and estate taxes) were as follows in the years ending June 30, 1914 and June 30, 1926:

INTERNAL REVENUE RECEIPTS ⁵
[*Excluding Income and Estate Taxes*]

<i>Source</i>	<i>Receipts</i>	
	1925-26	1913-14
Tobacco.....	\$370,666,439	\$ 79,986,640
Manufactures and products.....	142,492,769	
Corporation capital stock.....	97,385,756	
Stamps.....	49,800,825	
Spirits and fermented liquors.....	26,452,092	226,179,690
Admissions.....	23,980,677	
Dues.....	10,073,838	
Sales (consumers' or dealers').....	7,727,719	
Occupational.....	4,546,978	
Playing cards.....	4,213,414	714,307
Other.....	5,338,932	1,746,901
<i>Total</i>	\$742,679,376	\$308,627,538

⁵ *Annual Report of the Secretary of the Treasury for fiscal year ending June 30, 1926*, pp. 472-6.

This list includes certain taxes which are not properly excises, or taxes on commodities levied internally, but it has seemed best not to eliminate from the accounts the various internal revenue taxes which cannot be termed excises.

The automobile tax.—The tax second in importance to the tobacco tax, under the system which was evolved after the introduction of prohibition, was the manufacturers' tax on automobiles. This tax yielded, however, only about one-sixth as much as the tobacco taxes. In the table given above it is classed as one of the excises on "manufactures and products."

The history of the American automobile tax furnishes an example of a clear public perception of the incidence of an excise. As the tax was levied in 1927 it was a 3 per cent tax paid by manufacturers. The manufacturers, recognizing the fact that the tax was passed on to the purchasers, nevertheless asked urgently for the repeal of the tax. In a request for repeal submitted to Treasury officials by automobile manufacturers early in 1928 the statement was made that "every cent of it was borne by consumers," but it was urged that a special class of consumers was affected, and that the tax was "not comparable to any other tax now levied by the Federal Government except the tax on pistols." The manufacturers gave "the signed pledge of the entire motor industry that if this tax is repealed it will immediately be deducted from the delivered price of all cars." The tax was repealed by the Revenue Act of May 29, 1928.

British excises.—The British excise system is second only to the customs system in antiquity. The excise was adopted in 1643 to raise money for the conduct of the Civil War. The commodities affected were beer, cider and perry, and certain articles of food and clothing. The system became a permanent one, much as the internal

revenue system developed in the United States in the course of a Civil War which occurred more than 200 years later became a mainstay of the revenue system; and, like the American system, the British excises came to include a variety of taxes which were not strictly to be defined as duties on commodities levied internally.

The greater part of the British excise receipts have been furnished by beer and spirits for many years. An indication of the war-time expansion of these duties is given in the following figures:

	<i>—Receipts from Excises⁶— (Millions of Pounds)</i>		
	<i>Beer</i>	<i>Spirits</i>	<i>Total</i>
1913-14	14	20	40
1914-15	16	20	42
1915-16	34	22	61
1916-17	32	14	56
1917-18	19	7	39
1918-19	25	19	60
1919-20	71	43	134

The British excise system continues to be based mainly upon alcoholic beverages. The list of sources in 1925-26 stood as follows:⁷

	<i>Excise Receipts (Millions of Pounds)</i>
Beer.....	76
Spirits.....	42
Entertainments.....	6
Licenses (beer and spirits).....	4
Matches.....	2
Other.....	4
<i>Total.....</i>	134

Comparison with American excises.—British excises at this time (1925-26) were considerably heavier than

⁶ *Statistical Abstract for the United Kingdom* (London, 1927), pp. 112 *et seq.*

⁷ Great Britain, *Finance Accounts of the United Kingdom for the Financial Year 1925-26* (London, 1926), p. 18.

American taxes of the same class. British excises stood at about \$16.00 per capita, and American excises at about \$7.50.

The British taxes on beverages weigh heavily on the lower classes. According to the estimates made by the Committee on National Debt and Taxation, the taxes on beverages of about \$60 a year are paid by households with incomes of \$1000. The Committee's estimates for a married taxpayer with three children are as follows:⁸

<i>Income</i>	<i>Tax Paid on</i>
<i>1925-26</i>	<i>Alcoholic Drinks</i>
\$1,000	\$61
2,500	60
5,000	90
10,000	120

There was no parallel for this burden of taxation in the United States, where beverage taxes were almost non-existent and where tobacco taxes were about \$3.00 per capita.

The beer duty.—The very large consumption of beer in Great Britain is the factor which makes possible the heavy excises described above. In 1913-14 the consumption of beer was approximately a barrel per person, as the total was 35,446,000 standard barrels.⁹ In 1925 the amount was about 20,000,000 standard barrels, or about 18 gallons per person. For the working classes the consumption is probably heavier than the average, and for other classes lighter. Obviously nearly all of the beer drunk is consumed by adults.

Before the World War the duty was approximately 10 per cent of the retail price. In 1925-26 the duty was more than one-third of the price. The Committee on

⁸ Great Britain, *Report of the Committee on National Debt and Taxation* (Cmd. 2800, London, 1927), pp. 94-5. Pounds are here converted into dollars at \$5.00.

⁹ *Statistical Abstract for the United Kingdom*, (London, 1927), p. 154.

National Debt and Taxation gave the per capita beer duty in 1925-26 as about \$9, including children and adults who did not drink beer.¹⁰

Social effects.—It is scarcely possible to neglect the social effects of excises on alcoholic beverages. The British Debt Committee reached the conclusion that the high post-war duties, with the decreased consumption which had resulted, made for social well-being. The argument was as follows:¹¹

If the alcohol duties were materially lower, it is probable from past history that lower prices would lead to more drinking and to some increase of excessive drinking; excessive drinking is clearly not conducive to economic well-being, and it would be difficult, in the interest of that well-being to argue in favour of any increase over the present level of consumption.

On the other hand, it is also probable that lower alcohol duties would release more money for household expenditure. . . . The smaller post-war consumption of beer and spirits is, we think, due in some degree to a change of habits independent of price considerations, like the larger consumption of tobacco; it is, however, not possible, from a few years of industrial depression and unemployment, to gauge the extent or the solidity of the change.

Dowell on beverages.—Dowell, writing in the eighties on the significance of beverage taxes on the British excise and customs systems, treated their repercussions in words which need little revision today:¹²

The history of these taxes is connected with that of the habits, the morals and the health of the people; with smuggling and all the evil consequences to a nation that ensue from the lawlessness, the idleness, the meanness and the ferocity which it engendered; with adulteration of so dire a kind as seriously to affect the health of the subjects; with our foreign and our domestic policy, as when taxes in the list have, on occasion, proved the cause of serious disputes with foreign powers, have altered the course of trade, or have given rise to serious riots at

¹⁰ Great Britain, *Report of the Committee on National Debt and Taxation*, (Cmd. 2800, London, 1927), p. 226.

¹¹ *Ibid.*, p. 230.

¹² S. Dowell, *History of Taxation and Taxes in England*, 2d ed. (London, 1888), Vol. IV, p. 47.

home—in short, with very much that is interesting from other points of view than a mere fiscal point.

Principal French excises.—The principal French excises are as follows, with the estimated yield for 1927 (in millions of francs):

	<i>Million Francs</i>
Alcohol.....	1109
Sugar products.....	1095
Spirits and costly wines.....	795
Wines, etc.....	598
Salt.....	132
Other.....	349
<i>Total</i>	4079

Tobacco is a monopoly in France, and it therefore does not appear on the above list.

Excises shared in the increase and reform of taxes after the Committee of Experts had reported on the French fiscal system in the summer of 1926. The excises which were doubled or more than doubled included those on salt, sugar, coffee, tea, spirits, gasoline, wine, cider and beer.

Principal German excises.—The most important excises in Germany for the year 1926-27 were estimated to stand as follows, in millions of Reichsmarks:

	<i>Million Reichsmarks</i>	
Tobacco.....	655	} Pledged towards reparation
Sugar.....	265	
Beer.....	235	
Alcohol (monopoly, net).....	172	
Wines.....	20	
Matches.....	11	
Other.....	21	
<i>Total</i>	1379	

Since alcohol was a monopoly in Germany, its place

as a first excise was taken by tobacco. Excise duties on wines and salt were abolished in April, 1926, but a duty on sparkling wines was introduced at that time. Duties on beer and tobacco were raised in August, 1927.

Excises under the Dawes Plan.—The Dawes Committee found indirect taxes in 1924 “unduly low” and “susceptible of increase without diminishing consumption.” The Committee was mindful, however, of the similar effects of general turnover taxes and excises, and said that “to state that Germany could stand increases in the rates on tobacco, beer, spirits, etc., to the level of those in England, while ignoring the existence of her high turnover tax . . . would be to destroy the balance of her system and be oblivious to the total burden thus accumulated.”

Under the Dawes Plan the yield of the taxes on tobacco, sugar and beer, together with the net yield of the alcohol monopoly and the yield of the customs, was pledged as collateral security for the budget contributions to reparation payments. The yield from these sources was satisfactory. The revenue from the sugar tax fell off on account of a 50 per cent reduction in rates effective on August 1, 1927.

Permanence of the decrease.—The declining position of excises in modern industrialized countries is an illustration of the general tendency to move towards direct taxation. Like the older customs, excises occupy a smaller and smaller position as the generations pass. Today, the only countries in which excises are as important as they were in the United States before the World War are the simpler and more primitive countries economically. There is a parallel tendency to limit excises to fewer commodities, which is a result of the same forces. Excises, in short, may be expected to decline still further in variety and importance.

BIBLIOGRAPHICAL NOTE

Excellent historical accounts of American excises may be found in D. R. Dewey, *Financial History of the United States* (New York, eighth edition, 1922), and F. C. Howe, *Taxation and Taxes in the United States under the Internal Revenue System* (New York, 1896). The *Annual Reports of the Commissioner of Internal Revenue* (Washington) contain the financial accounts of the excises. In C. J. Bullock, *Selected Readings in Public Finance* (Boston, 1906; second edition, 1920), there is a selection of valuable articles which treat excise taxes.

The British material is full. The *Finance Accounts of the United Kingdom* (London, annually) contain the returns from the particular excises. The *Report of the Committee on National Debt and Taxation* has an excellent and acute analysis of the effects of excises and customs. The war years are covered in H. F. Grady, *British War Finance* (New York, 1927).

For theoretical treatment the classical sources should not be neglected, especially A. Smith, *Wealth of Nations*, and John Stuart Mill, *Principles of Political Economy*. S. Dowell, *History of Taxation and Taxes in England* (London, second edition, 1888), has some penetrating comments on excises.

Existing and recent continental excises may be found in League of Nations, *Memorandum on Public Finance, 1922-1926* (Geneva, 1927) and *Memorandum on Public Finance, 1922* (Geneva, 1923). The German situation is described critically in the Dawes Report, known as the *Report of the First Committee of Experts* (Paris, 1924).

CHAPTER XIV

CUSTOMS AS REVENUE

Nature of customs.—Customs duties are duties which are levied upon commodities as they cross a national frontier. They may be levied either upon imports or upon exports, but the former are more common. Import duties as a rule fall upon the countries which impose them and are shifted to consumers within those countries.

Like excises, therefore, import duties are taxes upon consumption, with definitely assignable advantages and disadvantages. They are elastic in that they respond to a certain extent to changes in rates, and the consumer, who is ordinarily unaware of their incidence, is acquiescent.

On the other hand import duties are unreliable unless the entire list of commodities taxed is carefully planned from a fiscal point of view. It is needless to say that such planning is not possible in modern industrial states, which must respond to the repeated demands of their citizens for protection for special industries and products. War is in any case a disruptive force for a customs revenue system, and neither military nor commercial wars have yet been eliminated. If the practice of modern industrial states may be taken as a guide, it may be said that it is better not to rely upon customs duties, under modern conditions, for more than one-sixth of the revenue.

Historical position of customs.—Customs are the

oldest of the main classes of taxes in use today. The simpler societies held that such duties were paid by the foreigner, and port or toll duties and import and export duties on commodities seemed a natural and harmless method of obtaining income for the sovereign. In England they are very ancient. The tunnage and poundage on wine and other commodities in the time of Edward I were not the first, for Magna Charta calls the wool export duties "the ancient and equitable duties," in contrast with those on wine which were known as "the new customs." Adam Smith says:¹

The duties of customs are . . . ancient. They seem to have been called customs, as denoting customary payments which have been in use from time immemorial. They appear to have been originally considered as taxes upon the profits of merchants.

Gradually in Great Britain the customs were supplemented by internal duties or excises, and at last the germs of the modern system appeared with the introduction of the income tax in 1798.

Early American customs.—In the briefer life of the United States a similar evolution of customs duties may be seen. In the first days of the new republic customs duties were almost the sole support of the national treasury. This was due in large part to the fear and dislike which the Americans had shown towards centralized taxation. Excises were said to be degrading to a free people, and those which were tried were collected with great difficulty and expense. Direct taxes were considered unequal, unjust, and savoring of the British taxation which had recently been shaken off. With these forms of taxation out of the question or capable of being used only to a minor extent, customs duties, which were not regarded as taxation except by the fiscally sophisticated,

¹ Adam Smith, *Wealth of Nations*, Book V, ch. ii, part ii, art. iv.

were the only possible productive source of revenue. Probably, also, the idea was prevalent that the foreigner paid the tax.

From 1789 to the Civil War the Federal Government relied very largely upon customs as a source of revenue. Import duties increased, and during the greater part of the period they were sufficiently stable. Dewey says that "there were no indications that they disturbed the normal course of industry or discriminated against any section or class."²

Former position of customs.—The relative importance of customs duties at the beginning of the twentieth century is shown by Bastable, as follows:³

	<i>Customs Revenue</i> (Millions of Pounds)	<i>Per Cent of</i> <i>Total Revenue</i>
England, 1901-02.....	31	25
France, 1901.....	16	12
Germany, 1900 (estimate).....	25	47
Italy, 1901-02 (estimate).....	9	13
Russia, 1900.....	22	23

It is not possible to make exact or valid comparisons between customs receipts of that period and customs receipts of today; but it may safely be concluded that the customs duties have lost their importance in the principal revenue systems, largely on account of the introduction and development of income taxes and, with respect to certain countries, on account of the introduction of sales taxes.

Recent changes.—A table showing the pre-war and post-war position of customs has been presented by Shirras:⁴

² D. R. Dewey, *Financial History of the United States* (New York, 8th ed. (1922), p. 110.

³ C. F. Bastable, *Public Finance*, 3rd ed. (London, 1903), p. 551.

⁴ G. F. Shirras, *The Science of Public Finance* (London, 1924), p. 354. The fiscal years indicated are not given in the text.

<i>Country</i>	<i>Percentage of Customs Revenue to Total Tax Revenue</i>	
	<i>Pre-war</i>	<i>Post-war</i>
Great Britain.....	21.8	15.8
India.....	14.7	26.1
Australia (Commonwealth).....	76.3	34.9
Canada (Dominion).....	81.2	63.1
New Zealand.....	57.9	31.1
South Africa (Union).....	....	32.4
United States of America.....	43.6	10.0
Italy.....	13.6	9.3
Japan.....	10.0	4.7

The year selected for the post-war period is evidently one shortly after the close of the war, before the American customs had reached the height of 1926 and 1927. In any case, the table demonstrated two points effectively: first, the generally lessened importance of customs as revenue, for only Indian customs form an exception; and, second, the tendency of the new countries to rely upon customs more heavily than the older countries do. The table thus gives further illustrations of the seizing upon customs in the necessities of early national life, and their loss of position when improved economic and political life makes other large taxes possible.

Revenue today.—The gradual relative shrinkage of the customs duties in favor of such taxes as modern income taxes is inevitable. To an increasing extent their unreliability is demonstrated, and the necessity of using other forms of revenue for the principal support of the modern state is understood. In the principal industrial countries of the present customs furnish from one-sixth to one-twelfth of the tax revenue. The figures for the chief countries are shown in the table on page 193.

The United States, in spite of its extraordinary use of the recently developed income tax, gives customs duties a more important place than any other of the highly

CUSTOMS AS REVENUE IN PRINCIPAL COUNTRIES ⁵

<i>Country</i>	<i>Percentage of Total Tax Revenue Derived from Customs</i>
United States, 1926-27.....	16.7
Great Britain, 1926-27.....	15.7
Italy, 1926-27.....	11.7
France, 1927.....	10.4
Germany, 1926-27.....	8.7

developed commercial countries gives them. Nevertheless the difference between the United States and Great Britain is not great, even though they have arrived at the result by different roads; the United States by way of protection and a somewhat elementary reliance upon customs as an inheritance from simpler days, and Great Britain by way of a scientifically devised revenue tariff which has been modified to permit protection in the post-war years.

The useful commodities.—Although excellent accounts of customs for protection are available for the United States, there are few carefully prepared analyses of customs as revenue. This deficiency has persisted in spite of the fact that customs receipts were the only important source of revenue from the formation of the republic to the Civil War.

Sugar duties have been the mainstay of the customs revenue from the end of the Civil War. In 1870 sugar produced about one-fifth of the total customs receipts of \$180,000,000. In 1880 sugar was still first, with a yield of about one-fourth of the total customs receipts. In this period duties on wool and woollens were second in importance, silk third, and iron and steel fourth. Sugar has remained first down to the present time. Wool and

⁵ Estimates given in League of Nations, *Memorandum on Public Finance, 1922-1926* (Geneva, 1927), pp. 200-1, 228-9, 245-6, 305-6, 461.

woollens remain important, although that group has occasionally been displaced by other duties, as in 1913 when the receipts from cottons considerably surpassed the receipts from woollens. The American duties have represented the taxation of necessities to an extent which would not have been countenanced under the most important revenue tariff which has existed, that of Great Britain before the World War.

Chief customs.—The principal sources of customs revenue in the United States in 1926 were as follows:

	<i>Millions of Dollars</i>
1. Sugar.....	147
2. Wool, raw and manufactured.....	74
3. Agricultural products.....	64
4. Metals.....	49
5. Tobacco.....	38
6. Earths, earthenware, glassware.....	29
7. Chemicals.....	29
8. Flax, hemp, etc.....	27
9. Silk and silk goods.....	24
10. Cotton manufactures.....	14
Other.....	95
<i>Total</i>	590

The list of the most important revenue-producers on the customs list of the United States shows clearly that the system has been primarily devised for protection rather than for revenue. Instead of representing a series of commodities which are semi-luxuries of wide general consumption, three of the first five articles on the list, wool, agricultural products, and metals, are raw materials for industry and necessary food products, while only two, sugar and tobacco, represent the type of article upon which customs duties for revenue purposes should be imposed.

Sugar, which is by far the most important revenue-producer on the list, is an excellent object for this type

of taxation, however. It is the second import of the United States in value, and it is more extensively consumed in the United States than in any other country. It is responsive and elastic, for the present high standard of living of the United States permits the levying of such a duty at a high per cent without resulting changes in consuming habits.

Relative decline.—Although the customs revenue of the United States has increased in amount with each passing decade, it has had a smaller and smaller place in the revenue system. Figures selected from the reports of the Secretary of the Treasury and averaged for the specified period of years show the decline as follows:

<i>Years</i>	<i>Total Revenue</i>	<i>—Customs Revenue—</i>	
	<i>Annual Average</i>	<i>Annual Average</i>	<i>Per Cent of Revenue</i>
1791-94	\$4,543,425	\$4,224,729	93
1820-24	18,521,671	16,513,316	89
1840-44	18,788,110	15,887,009	85
1870-74	361,480,650	193,674,481	54
1900-04	564,074,446	254,389,836	45
1920-24	4,824,722,968	419,261,506	9
1925-27	3,846,607,805	545,647,681	14

The percentages given above show the evolution of a country, in what is probably the shortest possible time, from a simple economic and political situation in which practically all the revenue is derived at the frontiers, to a highly developed economic and financial country with immense sources of taxation within itself.

British revenue duties.—The British free trade movement which followed the industrial revolution did not have its inception until nearly half a century after Adam Smith advocated the principle in the *Wealth of Nations* in 1776. Reform of the system of import duties was begun about 1825 and completed about 1875. From that time until the World War changed the attitude of the

country towards customs for revenue only, the customs were non-protective and levied on a few articles only. Tobacco, which yielded about one-half of the total customs revenue in 1913-14, was the mainstay of the system. Tea, alcoholic beverages, and sugar furnished nearly all of the remainder. These taxes were laid upon articles of wide general consumption, although the commodities were not, strictly speaking, necessities, and they could be depended upon to furnish large and steady revenue.

In the course of the World War the British Government changed its policy, and in the war years and the period immediately succeeding several steps were taken in the direction of a return to protection. By the McKenna duties of 1915, which included 33 and one-third per cent duties on motor cars, the Safeguarding of Industries Acts of 1921, 1924 and 1925 and several other measures, the character of British customs receipts was changed. Silk, motor cars and a variety of other commodities became revenue producers. The purely revenue items remained most productive, and tobacco furnished more than one-half the total customs revenue in 1925-26. In that year the customs receipts in terms of dollars reached about the same amount in Great Britain as in the United States.

Chief British customs.—The principal sources of customs revenue of the United Kingdom were as follows in 1925-26:⁶

	<i>Millions of Pounds</i>		<i>Millions of Pounds</i>
Tobacco and snuff...	54	Wine.....	4
Sugar.....	18	Silk.....	3
Spirits.....	8	Matches.....	2
Beer.....	6	All other.....	3
Tea.....	6	<i>Total</i>	<u>104</u>

⁶ *Finance Accounts of the United Kingdom for the Financial Year 1925-26* (London, 1926), pp. 16-17.

Continental customs.—Unlike the British customs in the years before the World War, French, German and Italian import duties have been levied from the point of view of protection. In the post-war years the revenue element has been distinctly present, however. According to the chief of the Division of Foreign Tariffs of the United States Department of Commerce, "The desire to increase the national income was a prominent auxiliary motive in almost every country. The heavy burden of governmental expenditure and debts incurred during the war, and the largely increased need for funds to carry the post-war obligations and projects, added impetus to the desirability of tariff revision upward as a ready and fairly certain means of increasing the national revenue."⁷

On the whole the chief continental countries depend less upon customs revenue and more upon other forms of taxation than do Great Britain and the United States. France, Germany, and Italy have a long protectionist history which apparently precludes the utilization of the customs for revenue. A field in which tariff wars are likely to develop at any time is not a suitable one for the substantial revenue items.

Criticism of customs.—One of the sharpest criticisms of import duties as revenue producers has been made by J. A. Hobson, who was concerned with existing and possible taxation in the modern industrial country when he wrote *Taxation in the New State* soon after the war ended.⁸ The import duties ordinarily in use were said to be incapable of bringing any net gain to the national revenue. Since they fall upon the incomes of the people of the importing country by raising prices and reducing the real value of their money incomes they inflict heavy

⁷ H. Chalmers, *European Tariff Policies Since the War* (Washington, U. S. Department of Commerce, 1924).

⁸ J. A. Hobson, *Taxation in the New State* (New York, 1920), pp. 235-6.

damage, the argument continued. They were further said to be expensive in collection, responsible for directing much of the labor and capital of the nation into less productive channels than they would otherwise have taken, weakening to the stimulus for the discovery and application of improved technique, and effective in reducing the aggregate yield of wealth and the surplus from which state revenue should be derived. The rare cases in which the foreigner can be made to pay were said to be so precarious and incalculable as to make them negligible in a taxing policy. Import duties were held to be defensible, if at all, for other purposes than for revenue; namely, as a weapon in an international campaign against sweating.

Customs under actual conditions.—In evaluating as complex a form of revenue as existing customs duties, it is important to take into account the actual situation in the country under discussion. In Great Britain, where the Colwyn Committee found that the married taxpayer with three children, on an income of less than \$1000, was paying from 10 to 12 per cent of his income to his government in the form of customs and excises, the effects may be perceptible and are almost certainly harmful. The Committee noted, however, that the tobacco tax, the most important of the customs duties, had not prevented a considerable increase in the per capita consumption of the product. This fact indicates that even in the most heavily burdened countries the regressive and repressive effect of customs duties may not be so severe as opponents of the duties assume.

In the United States the effect of customs duties is of course less serious. Customs receipts in 1927 were about \$5 per capita, or about \$25 for a family of five. Since the principal sources of revenue were sugar, wool and agricultural products, the distribution of the cost is nearly

the same for the rich and the poor. Since this would be only 2.5 per cent of an income for a family of five with an income of \$2000, which perhaps corresponds to an income of \$1000 or £200 in Great Britain, the weight of the customs cannot be a serious handicap to consumption. This fairly equitable affect has been achieved in spite of the fact that customs scales in the United States have been carelessly made from a revenue point of view and may have been ill-adapted to use as tax measures.

BIBLIOGRAPHICAL NOTE

The history and present status of customs as sources of revenue are largely to be found in official reports, as far as the United States is concerned. D. R. Dewey, *Financial History of the United States* (New York, 8th ed., 1922), contains sections on customs written from this point of view, but it is almost unique. The current American texts treat the subject with brevity. The *Annual Reports of the Secretary of the Treasury* (Washington, D. C.) and the *Statistical Abstract of the United States* (Washington, D. C., annually) furnish the necessary statistical information. T. W. Page, *Making the Tariff in the United States* (New York, 1924) is a valuable treatment from another angle.

The British material is somewhat more extensive. A volume which post-war changes cannot make obsolete is C. F. Bastable, *Public Finance* (London, 3rd ed., 1903) which contains a descriptive chapter. W. M. J. Williams, *The King's Revenue* (London, 1908), and G. Armistage-Smith, *Principles and Methods of Taxation* (London, 1908), have excellent sections on customs as revenue. The *Report of the Committee on National Debt and Taxation*, Cmd. 2800 (London, 1927) includes an analysis of the effect of taxes paid as customs and excises, together with statistical material. The annual *Statistical Abstract of the United Kingdom* (London) has necessary facts from the official reports.

Continental customs from the revenue point of view are treated in League of Nations, *Memorandum on Public Finance*, 1922 (Geneva, 1923), and *Memorandum on Public Finance*, 1922-1926 (Geneva, 1927).

CHAPTER XV

CAPITAL LEVIES

Importance of capital levies.—In many of the studies of post-war finance capital levies have been neglected, partly because such levies are not recurrent and their proceeds may be expected to disappear, and partly because they have been concealed from the English-speaking student under such (translated) titles as “emergency levies.” In works in which capital levies have been given consideration proportionate to their fiscal importance, there has been a tendency to suggest that they are revolutionary taxes of the type which the popular mind associates with anti-capitalistic governments.

The capital levy has too brief a history to be capable of exact and inclusive definition. The term is usually used to indicate a non-recurrent progressive tax on the real and personal property of the citizen on a given date. The base of such a levy does not differ perceptibly from that of death duties, and payments of the tax, like other taxes which apply to property, may be made out of income. The tax thus contains no elements which are not found in the tax systems of modern industrial countries.

The most important countries which have used the levy are Germany, Italy, Austria, Hungary, Czechoslovakia, and Poland. As nearly all of the capital levies were allowed to be paid in instalments over a period of years, the payments are still to be found in the budgets except

where the levy has been abandoned. In France and England the agitation for a levy has appeared sporadically since the end of the European war, but at the time of writing legislation providing for capital levies in those countries seemed improbable.

The German emergency levy.—The German capital levy was forced through in 1918, less on account of political considerations of the type which accompanied the passage of the measure in Italy and which kept the project alive in England and France, although they doubtless had an effect, than as a final unwelcome resort in a great national emergency. The tax was appropriately called the "Sacrifice for the Empire's Need" (*Reichsnotopfer*) or the "Emergency Levy." Moreover, the principle of a non-recurrent levy on wealth was not a new one in Germany. Just before the war, in 1913, it had been announced that a "Defense Contribution" (*Wehrbeitrag*) was to be levied on all property and income.

The rates of the emergency levy were from 10 per cent on the first 50,000 marks of taxable capital to 65 per cent on taxable capital of more than 100,000,000 marks. This levy went hand-in-hand with a non-recurrent levy on war-time increases of wealth and a tax on increases of capital since the war. The proportionate productiveness of Germany's tax was high. During the fiscal year 1920-21 the emergency levy furnished about 18 per cent of the total tax revenue of Germany. From that time forward the yield declined, and after 1925-26 it disappeared from the budget.

The Italian capital levy.—The Italian capital levy act was passed late in 1919. It was pushed through by the Government at a time of great political difficulty, in such a way that the impression was given that it was a move to bring about closer relationships with the more radical political groups in the country. Payment of the tax was

spread over a period of 20 (originally 30) years, so that it was in fact a tax which could be paid out of income. The rates ran from 4.5 per cent on property just above the exemption of 50,000 lire to 50 per cent on property of 100,000,000 lire or more. The date of valuation was January 1, 1920. This "extraordinary levy on wealth," as it was called, was accompanied by a heavy tax on increments of capital gained during the war.

Naturally the tax was not popular. The financial interests objected to it as a substitute for a tax on income, and the Socialists criticized it because it was less onerous in its application than the form of capital levy which they had originally supported. But the law remained in force, with occasional changes, for three years. The yield of the tax for the fiscal year ending June 30, 1922, was about 7 per cent of the total tax revenue. It was estimated that considerably more than one-half of the tax was paid by the owners of securities and other personal property, and that the proportion of people dependent upon agriculture for their livelihood, who paid the tax, was very small.

In spite of the revisions in the field of direct taxation which took place in the first years under the Fascist Government, the capital levy instalments continued to be collected. They furnished more than 6 per cent of the tax revenue in 1924-25, and were estimated to yield about the same proportion in the two following years.

The capital levy was utilized in several other countries which experienced severe financial emergencies after the end of the World War. The most important of these experiments were made in Austria, Hungary, Czechoslovakia and Poland.

The Austrian levy.—The changes in the value of the Austrian crown before stabilization was effected in 1922 make it difficult to follow the fortunes of the Austrian capital levy of 1920. It seems to have been fairly pro-

ductive in the early months, possibly as a result of the fact that a premium was put upon early payment. For the year ending December 31, 1921, the yield was less than 1 per cent of the total tax revenue. Under the League of Nations' reconstruction plan of 1922 the place of this tax was taken by a regularly recurring tax on the capital of individuals, from $\frac{1}{2}$ of 1 per cent to 3 per cent, as specified in the personal tax law of 1924.

The Hungarian levy.—The Hungarian capital levy of 1921 was the invention of Minister of Finance Hegedüs, who held office during the greater part of that year and took many steps intended to prevent his country's following in the path of Austria. This levy differed from most of the others in that it was applied, not to the taxpayer's total capital, but to various component parts of that capital, in such a way that the burden fell heavily upon the landed classes.

The first Hungarian law regarding the capital levy, Law XV of 1921, applied to bank deposits, corporate securities and foreign money and securities. The second, Law XVI of 1921, applied to various classes of real and personal property, including jewels. Owners of country estates of more than 1000 acres were compelled to surrender the net yield which, in the form of land, was intended to be used for agrarian reforms. The levies seem to have yielded approximately one-third of the total tax revenue in 1920-21. After a change in the political complexion of the Government the receipts fell off, and the Minister of Finance was instructed to use the proceeds to cover current budget deficits. Income from the levy gradually disappeared.

The levy in Czechoslovakia.—Czechoslovakia's law providing for a levy on capital and a tax on war-time increases in wealth was passed early in 1920. In this case the levy was adopted for the express purpose of improv-

ing the position of the Czechoslovak crown through the withdrawal of the notes used in payment. The maximum rate of the levy on capital was 30 per cent and of the tax on war-time increases of wealth 40 per cent. In 1923 the levy rates were reduced. The proceeds, being earmarked for a special purpose, do not appear in the budget.

The levy in Poland.—Poland adopted a capital levy in 1923, in the midst of a severe budgetary and currency emergency. The returns were at first an important aid to the Government, but they had fallen to a low point by 1926, and the (American) Kemmerer Commission of that year recommended the suspension of all future levies of the tax and the substitution of a supplementary tax on property.

The first British proposals.—The capital levy movement in Great Britain had its inception in labor's consciousness of the heavy burden imposed upon the wage-earning classes by the expenses caused by the World War. The continuing stimulus came from the mounting national debt. At the end of the war the total debt, which had amounted to 750 million pounds on March 31, 1914, had reached 8000 million pounds. From that date forward gradual reductions in the total amount of indebtedness were made. The interest on the internal debt, which was eight-ninths of the country's total annual interest charges, stood as shown in the table on page 205 in relation to the budget in the specified post-war years.

In the latter part of the war period, when it was realized that the country was to remain under the shadow of an unprecedented national debt for years to come, proposals for a levy on capital were brought forward with the intention of clearing away the greater part of the obligation with a few bold strokes. Writing in 1916, in an article on "A Revolution in the Income Tax," (one of

BRITISH DEBT CHARGES

<i>Year</i>	<i>Internal Debt Interest</i>	<i>Percentage of Budget Receipts</i>
1913-14	£16,728	9.6
1919-20	283,780	21.9
1920-21	308,664	22.4
1921-22	285,562	26.7
1922-23	265,671	30.4
1923-24	269,671	34.8
1924-25	272,777	35.1
1925-26	273,633	36.4

the collection in the Fabian Research Society's pamphlet *How to Pay for the War*) Sidney Webb advocated a 10 per cent tax on capital:

Even an Income tax at ten shillings in the pound—even if augmented by every kind of indirect taxation that the ingenuity of the Chancellor of the Exchequer can devise—may possibly not be sufficient to make both ends meet in that momentous first or second Budget of Peace. . . . What would be required would be, *once for all*, a lump sum contribution—a Special War Levy—of ten per cent of the capital value of all private property.

This proposal for a capital levy was accompanied by one for a "citizen tax" on all men and women registered as electors and possessing less than the minimum amount of property to be taxed according to the first method. Little further was heard of the "citizen tax," but the capital levy soon became a familiar proposal for meeting the obligations of the rapidly accumulating war debt. By the end of the year 1917 the plan had received favorable attention from influential sections of the press, was espoused by the Labor Party, and had been given qualified approval by the leader of the House of Commons.

Consideration in Parliament.—In the spring of 1918 the plan came up for consideration in the House of Com-

mons. It was dropped before it became a critical issue, but in the spring of 1919 it was revived with greater vigor. In introducing the budget in May, 1919, the Chancellor of the Exchequer (Austen Chamberlain) gave his opinion of the weakness of the project, especially its effect as a deterrent on the saving without which industry must wither, and emphasized the superiority of income and death duties. At the time of the second reading of the Finance Bill of 1919 an amendment carrying a capital levy was proposed, but was lost.

The report to the House of Commons.—Early in 1920 the proposal appeared in a new guise, that of a plan for taxing war wealth. A commission of Inquiry which had been requested in the House of Commons in 1919 came into being as a Select Committee of the House of Commons to inquire into the practicability of a tax on war-time increases of wealth. This committee received memoranda prepared at the instigation of the Chancellor of the Exchequer by the Board of Inland Revenue dealing with a levy on war increases of wealth.

In the *Memoranda* the Board of Inland Revenue recognized the fact that the imposition of a tax on war-time increases of wealth would transcend in difficulty any previous effort at taxation in Great Britain. They maintained that a levy on war wealth in order to be practicable should not fall exclusively upon war profits, but upon the increase in the wealth of individuals within a definite period, preferably June 30, 1914 to June 30, 1919. The aggregate net increase of wealth during this period was estimated at £4,180,000,000, making the present total wealth of the country £15,000,000,000. Two (alternative) methods of taxation were suggested by the Board, to yield £900,000,000 and £1,000,000,000 respectively, or from 11 to 12 per cent of the amount of the national debt. The proceeds should go toward the redemption of the debt.

From this time forward the movement lost ground. When the actual moment of decision came the Chancellor of the Exchequer refused to propose the tax, and although supporters brought up the subject at intervals, the popular interest was clearly lost. When the Labor Party came into power in 1924 the capital levy was quietly dropped. Greater issues were at hand, and the hold of the Labor Government was precarious at best. The Government was helpless without the votes of the Liberals, and the Liberals could not conceivably be induced to support a capital levy.

The surtax plan.—The issue was practically dead until it was revived by the Minority Report of the Colwyn Committee (The Committee on National Debt and Taxation) early in 1927, as a plan for a special surtax. The majority of the Colwyn Committee reported against the capital levy. They regarded it as unnecessary and pointed out, against the claim of the minority, that the wage-earning population was seriously overtaxed, that "the post-war taxes, combined with other factors, do not appear to have reduced the average or *general* standard of living of the working classes below the pre-war level." At the Labor Party conference in October, 1927, the surtax resolution was endorsed by a large majority.

Changing conditions.—Professor Pigou, who wrote vigorously of the capital levy issues in 1920, saying that "a large special levy for the purpose of repaying international debt is desirable from the standpoint of national productivity,"¹ recognized the subsequent changes in the British position when he referred to the proposal in his text published eight years later.² At that time he analyzed the arguments against the contemporary levy proposals as follows:

¹ A. C. Pigou, *A Capital Levy and a Levy on War Wealth* (Oxford, 1920), p. 48.

² A. C. Pigou, *A Study in Public Finance* (London, 1928), p. 306.

During the period immediately following the war I personally was of the opinion that, if it had been possible to pass with general assent, or with such measure of assent as was accorded to the excess profits duty, an Act providing for a levy adequate to wipe out a substantial portion of the war debt, this would, on the whole, have been to the national advantage. At the present time . . . I do not advocate such an act. First, if it was passed, its execution would be impeded by strong and organized opposition. . . . Secondly, such an act passed belatedly a number of years after the return of peace would make people much more fearful of further levies. . . . Thirdly . . . there is no strong reason to expect a heavy fall in prices in the near future. Lastly, British industry is still in an abnormally depressed condition, and in these circumstances anything which might render business nervous, even if the nervousness would be, in the main, unreasonable, is to be deprecated.

Theoretical analyses.—One of the astounding aspects of the years of capital levy agitation has been the British unawareness of or indifference to the use of the device by every important Continental country except France. The literature of the subject in Great Britain is extensive; leading economists and financiers have written and spoken at length on the question. The issues have been aired and aired again in the press. Yet the argument is abstract, theoretical, and tenuous. The Colwyn Committee's analysis under the caption "Psychological effects of the levy on saving and enterprise of individuals" is an illustration of the ultimate degree of refinement in fiscal analysis.³ Even under certain conditions there might be a stimulus to saving in certain exceptional cases, e.g.:

(i) That of the levy payer who had determined to save a definite net sum, and who might be impelled to repair, if he could, the damage done by the levy;

(ii) That of the levy payer who was allowed to pay in instalments, and was induced to create special savings, as suggested by Mr. J. A. Hobson.

(iii) That of the person, not subject to the levy, who was determined to save a definite net sum, and who was driven by the fear of liability to a future levy to make an extra effort. i.e., to save a larger gross sum.

³ *Report of the Committee on National Debt and Taxation* (Cmd. 2800) 1927, p. 279.

(iv) That of the person whose prospective inheritance had been reduced by the levy falling upon his father (a levy to be followed by Estate Duty).

The reader will remember that during the years in which this type of analysis was being patiently carried on in England, Germany imposed a group of taxes on capital and wealth which yielded in their most productive years 15 per cent of the total tax revenue; Italy collected a steeply graduated tax on wealth which yielded 7 per cent of the tax revenue; and several other European countries used the tax, with varying degrees of success. The British literature contains almost no allusion to the practical experience of these countries.

The capital levy movement in France.—France has dealt with a movement for a capital levy for nearly as long a time as England, and, as in England, the proposals have come from the Left Wing, which, having little property in land or securities, sees in the country's store of capital an untapped source of revenue. In 1920 the project reached as far as the Finance Commission of the French Chamber of Deputies, where it found some support from Moderates as well as from the Socialists, but where it was acknowledged that the French peasants' reluctance to contribute to the Government would probably bring failure to the whole plan.

Although the movement for a capital levy did not reappear in practicable form until 1925, it did not die out entirely. In 1922 M. Herriot, subsequently premier, who supported the capital levy, stated his case as follows: ⁴

. . . if the French Budget deficit is to be covered is it essential to have recourse to loans, in the ordinary form? We Radicals think not. To begin with, because the system of borrowing adds every year to our debt. Secondly, because, in our view, it is immoral to resort to

⁴ Edouard Herriot, "The Idea of the Capital Levy for France," *Reconstruction in Europe* (published by the Manchester Guardian Commercial) July 27, 1922, p. 280.

borrowing to balance a domestic Budget, as the Brussels International Conference so wisely declared.

We have considered the possibility of carrying into effect a capital levy over a limited period by proceeding from the conception of income. I have submitted to the Chamber of Deputies a scheme establishing in the first place a supplementary tax on incomes derived from capital. This scheme proposes to allow the taxpayer to discharge the amount of his supplementary tax over a period, for example, of ten years, freeing himself partially or totally from his liability by subscribing to a loan of a special type, bearing interest at $1\frac{1}{2}$ or 2 per cent. Under a minutely elaborated scale the taxpayer would be given the choice between sinking his money in a payment outright of the supplementary tax and subscribing to a special loan. Obviously he would prefer to subscribe. In this way the Government would procure cheaply the sums it needs (under our scheme, for the next ten years, a specially critical period for our Budget) for covering its deficits and contributing to the needs of its Treasury. In this way, too, all the difficulties of principle raised by the capital levy would disappear. Capital is reached by attacking income. The special loan is secured on the special tax.

French proposals in 1925.—In 1925 the Socialist section of the Radical-Socialist group began to prepare the ground for a new capital levy movement. The Minister of Finance proposed a "voluntary loan" of 10 per cent of acquired wealth, on which the Government would pay 3 per cent interest. Before this project could have other than the most hurried consideration the Herriot Government fell, defeated on the issue of exceeding the legal limit in the circulation of the Bank of France. The Socialists' capital levy proposal was voted down by the Finance Commission of the Chamber of Deputies, and Caillaux's project of increasing the note issue was approved in its place.

While the issue hung fire, capital was hastily withdrawn from France to Switzerland, much as capital left Switzerland itself in December, 1922 (at the time of the capital levy referendum) and as German capital disappeared after the war. The property-owners' terror of a capital levy is easy to understand for it appeared in every country where the proposal became concrete. France is a country

in which the ownership of both land and securities is widespread, and the opposition is correspondingly general.

Strength of the opposition.—One reason why the possibility of a levy is a disturbing matter to numbers of people outside of the *grande bourgeoisie* is to be found in the history of inflation in France. The irresistible course of rising prices made it possible for farmers to profit at the expense of the consumers in cities. Agriculturists who considered themselves poor persons ten years before had paid off their mortgages or become landowners, and stored up an amazing hoard of banknotes and Treasury bonds. They formed a new and wider propertied class, which added to the traditional thrift of the French peasant the new security-holders' pride in his intangible possessions.

The French reaction to the moderate suggestions made in that country seems extreme, however. Nothing more drastic than a 10 per cent contribution, paying interest to the contributor, was given serious consideration. Allowing for no interest payment, the proposal meant an annual contribution of not more than one per cent, easily payable out of income if the fortune were large enough to be taxable at all. Other countries had collected such taxes to the amount of more than one-half of the accumulated wealth of individuals, and although collection was not easy, the calamities prophesied in France did not appear.

The Swiss referendum.—Switzerland furnishes still another example of a country which had no post-war adjustment to make which was comparable with that of Austria or Germany, and which has considered but discarded the plan for a capital levy. The bill for a levy on capital was introduced in the autumn of 1922 by the Socialist Party, which saw in the tax on capital a way of lightening the burdens on the poor, and a referendum was scheduled for December 3rd.

In its terms the Swiss bill conformed fairly closely to the capital levy laws which were in existence in neighboring countries. It provided for a non-recurrent levy on the capital of individuals and corporations. The exemption was 80,000 francs (\$16,000) and individuals were entitled to certain other exemptions for wives, children, and household furniture and private effects. Above the exemption limit a highly progressive rate was to be employed for individuals, running from 8 per cent on the first 50,000 francs to 60 per cent on property in excess of 30,000,000 francs. For corporations the rate was fixed at 10 per cent throughout. Property was to be valued on December 31, 1922, and the tax could be paid in three yearly instalments. Three-fifths of the proceeds were earmarked for the Federation and the remainder was to be divided among the cantons and communities.

For some time before the referendum on December 3, 1922, Switzerland felt the influence of an impending upheaval. It was estimated that billions of francs of capital were transferred from Swiss banks to banks in other countries, so that it might be out of reach if the law should be passed. At the same time, gold dropped out of circulation in some of the larger cities. The referendum showed a seven-to-one vote against the tax, and the flow of capital back into Switzerland took place at once. Switzerland, as a country in which banking interests are more important relative to other forms of enterprise than with any of her neighbors, was clearly ill-advised in the attempt.

The verdict of time.—European experience with the capital levy shows that it may be a valuable prop in times of insolvency or fiscal distress. It may be made to yield as much as 10 or 15 per cent of the tax revenue over a certain brief time. In such times the conventional taxes are exhausted or are grossly inadequate and a heavy general sacrifice may be the only fresh resort. On the

Continent, with its stabilized currencies and balanced budgets, the day of the capital levy has almost passed.

The attempt to judge the practicability of such a device, in a country which has never tried it, is fantastic if it is based on abstract reasoning alone. The experience of other countries, unlike one another as they are and must remain, is a better guide. Their experience at least offers the evidence that tax measures of this kind are rough weapons and are pitted against cruder material than the current British and French analyses suggest. Experience has shown that the levies are not susceptible of being blocked by slight shifts in interest rates, but only by insurrections or panics or fiscal revolutions. Experience has also shown that the difficulties of assessment and collection, named as insuperable in many of the arguments, are no greater than those made for inheritance taxation. The verdict of the last decade is that the levy is useful in an emergency, but when the emergency is past, it should be discarded.

BIBLIOGRAPHICAL NOTE

The most accessible information on continental capital levies is found in the following League of Nations publications: *Memorandum on Public Finance*, 1921 (Geneva, 1922); *Brussels Financial Conference, the Recommendations and their Application* (Geneva, 1922); *Memorandum on Public Finance*, 1922 (Geneva, 1923); *Memorandum on Public Finance*, 1922-1926 (Geneva, 1927); *Monthly Reports of the Commissioner-General for Austria* (Geneva, 1923-1926); and *Monthly Reports of the Commissioner-General for Hungary* (Geneva, 1924-1926). The *Reports by the Commission of American Experts* (Warsaw, 1926) contain illuminating accounts of the course of the capital levy in Poland. C. E. McGuire, *Italy's International Economic Position* (New York, 1926), has a fairly full account of Italy's policy. The German tax is described in H. Höpker, *Führer durch das Reichsnotopfer* (Berlin, 1920).

The material concerned with the capital levy in Great Britain is full and varied. The *Report of the Committee on National Debt and Taxation* (London, 1927) has majority and minority sections on the subject of the proposed levy. F. W. Pethick-Lawrence, *A Levy on Capital* (London, 1918) and S. Webb, *National Finance and a Levy on Capital*

(London, 1919) illustrate the early provocative publications on the subject. J. A. Hobson, *Taxation in the New State* (New York, 1920), and J. Stamp, *Current Problems in Finance and Government* (London, 1924) have valuable critical and analytical sections on the levy. The most important of the papers published by His Majesty's Stationery Office are the *Memoranda by the Board of Inland Revenue on Increases of Wealth (War)* (London, 1920) and the *Report from the Select Committee on Increase of Wealth (War)* (London, 1920).

APPENDIX

ANALYSIS OF REVENUE OF FRANCE, GERMANY, GREAT BRITAIN, ITALY, AND THE UNITED STATES

Summarized from the League of Nations' *Memorandum on Public Finance, 1922-1926* (Geneva, 1927).

FRANCE

ANALYSIS OF REVENUE

	Budget Estimates					
	1925		1926		1927	
	Amount (in Million Francs)	Percentage of Total	Amount (in Million Francs)	Percentage of Total	Amount (in Million Francs)	Percentage of Total
1. <i>Direct taxation:</i>						
Land tax:						
Built property.....	387	.....	700	.....	1,046	.....
Non-built property.....	206	.....	207	.....	483	.....
Tax on industrial and commercial profits.....	1,925	.....	2,150	.....	3,200	.....
Tax on agricultural profits.....	61	.....	80	.....	200	.....
Tax on salaries, wages, allowances, pensions, etc.....	213	.....	330	.....	382	.....
Tax on profits from non-commercial professions.....	126	.....	126	.....	161	.....
General income tax.....	2,924	.....	2,879	.....	2,100	.....
Personal tax on movable property....	14	.....	10	.....	23	.....
Tax on patents.....	48.5	.....	60	.....	69.4	.....
Centimes payable in respect of draw- backs and costs of collection of local taxes in Alsace-Lorraine....	9.2	.....	16.5	.....	18	.....

Civic tax.....	.....	.....	580	.....	.....	I	.....
Tax on mortmain property.....	75	.....	90	.....	.....	100	.....
Mining royalties.....	55	.....	65	.....	.....	120	.....
Tax on vehicles, horses and mules...	24	.....	24	.....	.....	24	.....
Succession duties.....	1,620	.....	1,718.8	.....	.....		.....
Duties on gifts.....	144.5	.....	166	.....	.....	163.8	.....
Tax on income from movable property	1,849	.....	1,791.6	.....	.....	2,725.7	.....
Licenses to sell or distill alcoholic beverages and to let public vehicles on hire.....	71	.....	69	.....	.....	129.2	.....
Extraordinary tax on war profits.....	775	.....	400	.....	.....	200	.....
Tax on doors and windows.....	9.5	.....		.....	.....		.....
<i>Total direct taxation</i>	10,536.7	32.64	11,462.9	31.50	11,146.1	28.35	
<i>2. Indirect taxation and taxes on transactions:</i>							
Import duties.....	2,144.3	.....	2,609.2	.....	.....	3,557.6	.....
Export duties.....	61	.....	22	.....	.....	30.8	.....
Customs duties.....	100	.....	106.2	.....	.....	206.8	.....
Excise duties on:							
Spirits and costly wines (special duty).....	775	.....	739.4	.....	.....	794.9	.....
Wine, cider, perry and hydromel...	580	.....	584.1	.....	.....	598.4	.....
Beer.....	99	.....	93.5	.....	.....	88.5	.....
Alcohol.....	906.7	.....	982.3	.....	.....	1,108.9	.....
Mineral waters.....	27.2	.....	25.9	.....	.....	28.3	.....
Patent medicines.....	31.7	.....	67.4	.....	.....	79.4	.....
Perfumery.....	.....	.....	11.3	.....	.....	15	.....
Salt.....	19	.....	35	.....	.....	131.8	.....
Chicory and other coffee substitutes	32.2	.....	30	.....	.....	59.4	.....

FRANCE—(Continued)

ANALYSIS OF REVENUE

	Budget Estimates					
	1925		1926		1927	
	Amount (in Million Francs)	Percentage of Total	Amount (in Million Francs)	Percentage of Total	Amount (in Million Francs)	Percentage of Total
2. Indirect taxation and taxes on transactions (continued):						
Essence of vanilla.....	2.3	.....	2.6	.....	6	.....
Stearine and candles.....	4.9	.....	4.8	.....	13.7	.....
Vinegar and acetic acid.....	9	.....	9.7	.....	16.9	.....
Motor spirit and paraffin.....	8.5	.....	9.2	.....	10.9	.....
Benzine.....	11.6	.....	16.1	.....	21.6	.....
Lubricants.....	.....	.....	6.8	.....	9	.....
Sugar products and saccharine.....	492.5	.....	445.3	.....	1,094.7	.....
<i>Total excise duties</i>	2,999.6	9.29	3,117.4	8.57	4,077.4	10.37
Tax for promotion of technical educa- tion and apprenticeship.....	65	.....	80	.....	70	.....
Tax on change of ownership of prop- erty.....	2,589.5	.....	3,063.9	.....	2,931.8	.....
Duty in lieu of tax on change of ownership of property.....	1.3	.....	1.2	.....	1	.....

Tax on civil documents.....	654	.....	733	.....	821.5	.....
Tax on judicial, etc., documents.....	63.7	.....	64.4	.....	105.7	.....
Mortgage duty.....	81	.....	81.3	.....	82.1	.....
Duty on fire-insurance policies.....	15	.....	15.5	.....	17.6	.....
Stamp duty.....	976.5	.....	1,402.1	.....	2,014.9	.....
Tax on stock exchange transactions..	166	.....	261.4	.....	331.4	.....
Luxury tax.....	21	.....	18.2	.....	18.6	.....
Transport tax.....	708	.....	709.2	.....	2,273.4	.....
Tax on public amusements and horse- racing.....	70	.....	68.1	.....	79.9	.....
Tax on billiards.....	2	.....	2	.....	5.6	.....
Tax on bicycles.....	40	.....	38.3	.....	121.7	.....
Tax on motors.....	268	.....	325.6	.....	537.6	.....
Tax on automatic machines.....	.3	.....	.4	.....	1.6	.....
Hall-mark duty on gold and silver...	15	.....	15.3	.....	44.1	.....
Playing-cards.....	3.7	.....	3.9	.....	15.2	.....
Tax on turnover.....	4,439	.....	6,445.3	.....	7,581.5	.....
Tax on games of chance in clubs.....	10	.....	11.8	.....	16.1	.....
Fines and other receipts.....	96	.....	89.9	.....	166.6	.....
Other indirect taxes.....	29.5	.....	31	.....	32.9	.....
<i>Total indirect taxes and taxes on transactions.....</i>	15,619.4	48.39	19,316.6	53.08	25,143.4	63.95
3. <i>Net surplus from fiscal monopolies in France:</i>						
Chemically prepared matches						
Artificial fuel.....	1,901.8	5.89	2,549	7	225.8	.58
Tobacco.....						
Gunpowder.....						
<i>Total revenue from taxation...</i>	28,056.9	86.92	33,328.5	91.58	36,515.3	92.89

FRANCE—(Continued)
ANALYSIS OF REVENUE

	Budget Estimates					
	1925		1926		1927	
	Amount (in Million Francs)	Percentage of Total	Amount (in Million Francs)	Percentage of Total	Amount (in Million Francs)	Percentage of Total
4. <i>Net surplus from state domains:</i>						
Forests.....	132.7	.....	131.7	.....	182.4	.....
Domains other than forests.....	20.3	.....	255.7	.....	37.4	.....
Mines in the Saar district.....	60	.....	30	.....	50	.....
Potassium-mines in Alsace.....	10	.....	10	.....	20	.....
<i>Total net surplus from State domains.....</i>	223	.69	427.4	1.18	289.8	.74
5. <i>Net surplus from public undertakings.....</i>	18.3	.06	10	.03	8.5	.02
6. Receipts "for order".....	1,554.9	4.82	2,024.5	5.56	1,811.9	4.61
7. Various budgetary receipts.....	1,137.5	3.52	426	1.17	572.3	1.46
8. Receipts to be collected in Algeria.....	11.4	.04	14.9	.04	13.8	.03
9. Receipts in respect of repair of war damage	1,275.5	3.95	159.9	.44	100.5	.25
<i>Grand Total.....</i>	32,278.5	100	36,391.2	100	39,312.1	100

GERMANY

ANALYSIS OF REVENUE

APPENDIX

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	Closed Accounts		Estimates			
	1925-26		1926-27		1927-28	
	Amount (in Million Reichs- marks)	Percentage of Total	Amount (in Million Reichs- marks)	Percentage of Total	Amount (in Million Reichs- marks)	Percentage of Total
I. Direct taxation:						
A. Recurrent taxes:						
(a) Income tax.....	2,253.3	25.62	2,100	22.60	2,400	25.52
(b) Corporation tax.....	186.6	2.12	250	2.69	350	3.72
(c) Property tax.....	270.4	3.08	400	4.30	470	5
(d) Tax on directors' fees.....	13.8	.16	.....	.....	.....	.....
(e) Succession duties.....	27.3	.31	60	.65	100	1.06
B. Non-recurrent taxes:						
(f) Extraordinary taxes on in- come and corporations (Rhein-Ruhr-Abgabe und Betriebsabgabe).....	12.9	.15	.....	.....	.....	.....
(g) Extraordinary tax on bonds	46.8	.53	30	.32	25	.27
(h) Extraordinary property tax	1	.01	.....	.....	.....	.....
<i>Total direct taxation...</i>	2,812.1	31.98	2,840	30.56	3,345	35.57

GERMANY—(Continued)

ANALYSIS OF REVENUE

	Estimates			
	Closed Accounts		1926-27	
	1925-26		1926-27	1927-28
	Amount (in Million Reichs- marks)	Percentage of Total	Amount (in Million Reichs- marks)	Percentage of Total
<i>2. Indirect taxation:</i>				
<i>A. Customs dues.....</i>	590.5	6.71		9.46
<i>B. Excise duty on:</i>				
(a) Tobacco.....	615.6	7	655	7.05
(b) Sugar.....	236.2	2.69	265	2.85
(c) Beer.....	255.9	2.91	235	2.53
(d) Alcohol (monopoly net).....	153.1	1.74	172	1.85
Total pledged taxes <i>A-B(d)</i>	(1,851.3)	(21.05)	(1,907)	(20.52)
(e) Wines.....	80.1	.91	20	.21
(f) Acetic acid.....	2.2	.02	2	.02
(g) Sparkling wines.....	.....	.....	4	.04
(h) Salt.....	6.9	.08	2	.02
(i) Matches.....	9.7	.11	11.4	.12
(k) Lighting apparatus.....	7.5	.08	8	.09
(l) Playing cards.....	1.5	.02	1.8	.02
(m) Statistical dues.....	2.6	.03	2.5	.03

(n) Sweetening substances (monopoly, net) <i>Total excise</i>	.8	.01	.6	.01	.6	.01	.6	.01
	1,372.1	15.60	1,379.3	14.84	1,555	16.54		
C. Taxes on transport:								
(a) Motor vehicles (1924-25, including supertax).....	58.4	.66	70	.75	130	1.38		
(b) Passenger transport.....	175.6	2	170	1.83	170	1.81		
(c) Goods transport.....	142.7	1.62	155	1.67	155	1.65		
<i>Total taxes on transport</i>	376.7	4.28	395	4.25	455	4.84		
D. Taxes on transactions:								
(a) General turnover tax.....	1,338.3	15.22	974	10.48	900	9.57		
(b) Special turnover tax.....	77.7	.88	8	.09	.....	.....		
(c) Tax on real-estate transactions.....	30.7	.35	20	.20	25	.27		
(d) Taxes on movement of capital:								
(1) Company tax.....	40.1	.46	60	.65	54	.57		
(2) Tax on securities.....	9.2	.10	8	.09	30	.32		
(3) Tax on Stock Exchange transactions.....	40.3	.46	50	.54	66	.70		
(e) Stock Exchange tax.....	.....	.....	.....	.....	.....	.....		
(f) Insurance tax.....	40.2	.46	36	.39	45	.48		
(g) Race-betting tax.....	31.3	.36	40	.43	40	.42		
(h) Lottery taxes.....	34.5	.39	25	.27	30	.32		
(i) Tax on bills of exchange...	62.6	.71	50	.54	45	.48		
<i>Total taxes on transactions</i>	1,704.9	19.39	1,271	13.68	1,235	13.13		

GERMANY—(Continued)

ANALYSIS OF REVENUE

	Closed Accounts		Estimates			
	1925-26		1926-27		1927-28	
	Amount (in Million Reichs- marks)	Percentage of Total	Amount (in Million Reichs- marks)	Percentage of Total	Amount (in Million Reichs- marks)	Percentage of Total
2. <i>Indirect taxation (continued):</i>						
Total indirect taxation.....	4,044.2	45.98	3,625.3	39.01	4,135	43.97
Estimated additional yield of taxes.....	.....	.....	219.8	2.36	.....	.....
Total revenue from taxation.....	6,856.3	77.96	6,685.1	71.93	7,480	79.54
3. <i>Net surplus from public undertakings:</i>						
(a) Railways (dividend on pre- ferred stock).....	.....	.....	29.7	.32	51.1	.54
(b) Postal and telegraph serv- ices.....	.....	.....	70	.75	70	.74
(c) Printing office.....	5.5	.06	3.8	.04	4.3	.05

(4) Other public undertakings.	.8	.01	1.1	.01	.4	.01
<i>Total net surplus from public undertakings.</i>	6.3	.07	104.6	1.12	125.8	1.34
4. Dividends on Government shares in corporations, companies, etc.....	7.3	.08	7	.08	9.1	.10
5. Receipts from Reichsbank.....	12.5	.14	.....	.....	.....	.....
6. Interest from advances granted by the State.....	49.5	.56	42.7	.46	29.7	.31
7. Receipts from realisation of State assets..	8.1	.09	34.6	.37	36.2	.38
8. Share of public undertakings in service of debt.....	.....	.....	.....	.....	.....	.....
9. Proceeds from coinage.....	213.5	2.43	294.2	3.17	190	2.02
10. Interest on railway bonds.....	396.4	4.51	572.5	6.16	605	6.43
11. Interest on industrial debentures.....	62.5	.71	187.5	2.02	275	2.92
12. Balances from previous years.....	672	7.64	400.1	4.30	.....	.....
13. Receipts from loan operations:	330	3.75	.....	.....	.....	.....
(a) Foreign loan.....	.....	.....	.....	.....	.....	.....
(b) Internal loans.....	.....	.....	839.8	9.04	528.3	5.62
<i>Total receipts from loan operations.....</i>	330	3.75	839.8	9.04	528.3	5.62
14. Various administrative receipts.....	181	2.06	126.2	1.36	125.7	1.34
<i>Total Revenue.....</i>	8,795.4	100	9,294.3	100	9,404.8	100

GREAT BRITAIN AND NORTHERN IRELAND

ANALYSIS OF REVENUE

	<i>Finance Accounts</i>		<i>Estimates</i>	
	1924-25		1925-26	
	<i>Amount (in Thousand Pounds)</i>	<i>Percentage of Total</i>	<i>Amount (in Thousand Pounds)</i>	<i>Percentage of Total</i>
<i>Direct taxation:</i>				
Income tax.....	273,836	36.6	259,411	34.2
Super-tax.....	62,680	8.4	68,510	9.1
Excess profits duty.....	700	.1	2,000	.3
Land tax.....	700	.1	675	.1
House duties.....	500	.1	30	.....
Mineral rights duty.....	250	.....	245	.....
Death duties.....	59,450	7.9	61,200	8.1
Corporation profits tax.....	18,100	2.4	11,670	1.5
<i>Total direct taxation</i>	416,216	55.6	403,741	53.3
<i>Indirect taxation and taxes on transactions:</i>				
Customs duties.....	99,344	13.3	103,487	13.6
			108,450	14.1

Excise duties on:	75,826	10.1	76,320	10.1	Details not available	
Beer.....	42,825	5.7	41,990	5.5	}	}
Spirits.....	1,323	.2	1,290	.2		
Patent medicine labels.....	1,763	.2	1,634	.2		
Matches.....	6,249	.8	5,714	.7		
Entertainments.....	7,142	1	7,612	1		
Other items.....						
<i>Total excise duties.....</i>	135,128	18	134,560	17.7	141,300	18.3
Stamps.....	22,850	3	24,700	3.3	25,000	3.3
Motor vehicle duties.....	16,164	2.2	18,056	2.4	21,600	2.8
<i>Total indirect taxation and taxes on transactions.....</i>	273,486	36.5	280,803	37	296,350	38.5
<i>Total revenue from taxation.....</i>	689,702	92.1	684,544	90.3	691,150	89.8
<i>Net surplus from public domain:</i>						
Crown lands.....	960	.1	950	.1	950	.1
<i>Net surplus from public undertakings:</i>						
Post Office.....	5,070	.7	3,400	.4	4,800	.6
Interest on sundry loans, etc.....	11,941	1.6	14,944	2	21,650	2.8
Miscellaneous receipts.....	41,383	5.5	54,273	7.2	51,600	6.7
<i>Total Revenue.....</i>	749,056	100	758,111	100	770,150	100

ITALY

ANALYSIS OF REVENUE

	Closed Account		Estimates			
	1924-25		1925-26		1926-27	
	Amount (in Million Lire)	Percentage of Total	Amount (in Million Lire)	Percentage of Total	Amount (in Million Lire)	Percentage of Total
I. <i>Direct taxation:</i>						
Land tax.....	133.7	.53	150	.88	150	.77
Tax on buildings.....	246.2	.98	280	1.64	290	1.49
Tax on movable wealth.....	2,981.4	11.85	2,800	16.43	3,150	16.21
Tax on improved land and hunting grounds.....	1.1	(.004)	1.5	.01	1.5	.01
Tax on dividends and interest.....	58.3	.23	50	.29	10	.05
Complementary tax on incomes exceeding 10,000 lire.....	284.8	1.13	200	1.17	50	.26
Complementary tax on total in- come.....	.....	.....	.....	.....	.....	.....
Tax on director's fees.....	5.4	.02..	.....	.....	200	1.03
Tax on receipts of directors of joint-stock companies.....	6.2	.03	.....	.....	.....	.....
War super-tax on land, buildings and movable wealth.....	118	.47	30	.18	50	.26
Personal war tax.....	2.3	.01	.....	.....	.....	.....

War profit tax.....	385.2	1.53	250	1.47	250	1.28
Extraordinary property tax.....	994.4	3.95	800	4.69	900	4.63
War tax on increase in value of property.....	104.3	.42	50	.29	50	.26
Supplementary direct taxes on behalf of the mutilated.....	215.6	.86	60	.35	50	.26
Taxes on successions.....	116.7	.46	100	.59	100	.51
Taxes on mortmain property.....	12.8	.05	15	.09	15	.08
<i>Total direct taxation</i>	5,666.4	22.52	4,786.5	28.08	5,266.5	27.10
II. <i>Indirect taxation:</i>						
1. Customs duties:						
(a) Customs dues and harbor dues.....	912.7	3.63	{ 428	2.51	490	2.52
(b) Supplementary duties.....			{ 22	.13	15	.08
(c) Customs duties on corn.....					67.5	.35
(d) Exchange quotas on import duties.....						
<i>Total customs duties...</i>	1,402.7	5.58	750	4.40	1,250	6.43
	2,315.4	9.21	1,200	7.04	1,822.5	9.38
2. Taxes on consumption						
(a) Stamp duties on consumption.....	134.3	.53	142.2	.84	148	.76
(b) General turnover tax....	752.7	2.99	750	4.40	900	4.63
(c) Excise duties on:						
Sugar.....	715.9	2.85	1,100	6.45	1,200	6.18
Spirits.....	365.8	1.45	475	2.79	360	1.85
Gas and electric current	129.3	.51	115	.67	185	.95
Other articles.....	178.2	.71	167	.98	132	.68
<i>Total excise duties....</i>	1,389.2	5.52	1,857	10.89	1,877	9.66

ITALY—(Continued)
ANALYSIS OF REVENUE

	Closed Account			Estimates		
	1924-25		1925-26		1926-27	
	Amount (in Million Lire)	Percentage of Total	Amount (in Million Lire)	Percentage of Total	Amount (in Million Lire)	Percentage of Total
II. Indirect taxation (continued):						
(d) Other taxes on consumption:						
Wine.....	338.1	1.34	.....	.....	.....	.....
Coffee.....	251.1	1	285	1.67	225	1.16
Mineral oil.....	117.6	.47	100	.59	70	.36
Tax additional to the octroi on spirits....	72.9	.29	.....	.....	275	1.41
Total of other taxes on consumption.....	779.7	3.10	385	2.26	570	2.93
(e) Taxes on motor cars, bicycles, etc.....	105.3	.42	96.2	.56	109	.56
(f) Taxes on transport:						
(1) State railways.....	107.3	.43	146	.86	110	.57
(2) Private railways, tramways, etc....	22.5	.09	26.3	.15	26.3	.13
Total taxes on transport.....	129.8	.52	172.3	1.01	136.3	.70

<i>Total taxes on consumption.....</i>	13.08	3,402.7	19.96	3,740.3	19.24
3. Taxes on transactions:					
Registration dues.....	3.58	740	4.34	850	4.37
General tax on transactions..	2	550	3.23	600	3.09
Substitute for registration dues and tax on transactions.....					
Mortgage tax.....	.75	160	.94	230	1.18
Tax on the issue of notes....	.65	120	.70	155	.80
Tax on Government concessions.....	.23	80	.47	50	.31
Tax on Government concessions.....	.39	105.4	.62	115	.59
Other taxes on transactions..	.16	30	.18	40	.21
<i>Total taxes on transactions.....</i>	7.76	1,785.4	10.48	2,050	10.55
4. Tax additional to indirect taxes on behalf of the mutilated..					
5. Monopolies:					
Tobacco.....	8.92	2,316.8	13.59	2,371.2	12.20
Salt.....					
Quinine.....	.04	11.4	.07	10.8	.06
Lighting appliances.....	.44	99.2	.58	124.4	.64
Lotteries.....	.84	196.5	1.15	204.3	1.05
<i>Total net receipts on monopolies.....</i>	10.24	2,623.9	15.39	2,710.7	13.95
<i>Total indirect taxation</i>	40.29	9,012	52.87	10,323.5	53.12
<i>Total revenue from taxation.....</i>	62.81	13,798.5	80.95	15,590	80.22

ITALY—(Continued)

ANALYSIS OF REVENUE

	Closed Account		Estimates			
	1924-25		1925-26		1926-27	
	Amount (in Million Lire)	Percentage of Total	Amount (in Million Lire)	Percentage of Total	Amount (in Million Lire)	Percentage of Total
III. Net receipts from public domain and undertakings:						
Domain.....	55.2	.22	43.7	.26	41.7	.22
Forests.....	3.7	.01	3.7	.02	3.7	.02
Postal and telegraph services } ..	73.1	.29	{ 11	.06	9.3	.05
Telephone service			22.2	.13	6.6	.03
State railways.....	76.8	.31	20	.12	210.5	1.08
Deposit and Loan Institute.....	12.4	.05	6	.03	10	.05
Post Office Savings Bank.....	18.3	.07	32	.19	20	.10
Food Supply Services.....	78.5	.31	.....	.....	.....	.....
Maritime traffic.....	.1	(.0004)	.....	.....	.....	.....
Total net receipts from public domain and undertakings.....	318.1	1.26	138.6	.81	301.8	1.55

IV. <i>Share in proceeds of corporations, private companies, etc.</i>	4	.02	.3	(.002)	.3	(.002)
Private railways.....						
V. <i>Share in profits of banks of issue</i>	13.9	.05	13.9	.08	13.9	.07
VI. <i>Interest on advances granted by the State, etc., to:</i>						
(a) State railways.....	195.2	.78	253.7	1.49	301.7	1.55
(b) Various bodies.....	10.8	.04	12.9	.08	12.9	.07
Total interest on ad- vances.....	206	.82	266.6	1.57	314.6	1.62
VII. <i>Fees, fines, refunds, contributions, and other administrative receipts</i>	1,531.3	6.09	1,049.7	6.16	1,130.1	5.82
VIII. <i>Receipts from realisation of State assets</i>	435.1	1.73	80.8	.47	124.6	.64
IX. <i>Receipts from payments under the Peace Treaty</i>	450	1.79	300	1.76	.....	.....
X. <i>Issue of coinage</i>	289	1.15	.....	.....	.....	.....
XI. <i>Receipts from loan operations</i>	6,106.6	24.28	1,397.7	8.20	1,958.8	10.08
Total Receipts.....	25,154.3	100	17,046.1	100	19,434.1	100

UNITED STATES
ANALYSIS OF REVENUE

	Actual Receipts		Estimates			
	1924-25		1925-26		1926-27	
	Amount (in Million Dollars)	Percentage of Total	Amount (in Million Dollars)	Percentage of Total	Amount (in Million Dollars)	Percentage of Total
<i>Direct taxation (Internal Revenue):</i>						
Income tax; individuals and corporations	1,761.7	46.60	1,880	48.45	1,880	49.16
Estates tax.....	101.4	2.68	110	2.83	110	2.88
Gifts tax.....	7.5	.20	4	.10	2	.05
Tax on corporation capital stock.....	90	2.38	93	2.40	94	2.46
Brokers' stock tax.....	1.3	.04	2	.05	2	.05
<i>Total direct taxation.....</i>	1,961.9	51.90	2,089	53.83	2,088	54.60
<i>Indirect taxation and taxes on transactions:</i>						
Customs.....	547.6	16.46	556.8	14.34	551.8	14.43
Excise and other duties (Internal Revenue):						
Distilled spirits, etc.....	25.9	.....	25	.....	25	.....
Tobacco.....	345.2	.....	365	.....	380	.....
Stamps, etc., including playing cards..	49.3	.....	51	.....	50	.....

Telephone, telegraph and radio messages.....	.....	.....	.....	.....	.....	.....
Leased wires or talking circuits.....	.....	.....	.....	.....	.....	.....
Automobiles and parts.....	124.7	.....	.....	.....	150	.....
Candy.....	.....	.....	.....	.....	.....	.....
Firearms, shells, etc.....	3.7	.....	.....	.....	.....	.....
Jewellery, watches, clocks, etc.....	9.7	.....	.....	.....	3.9	.....
Non-alcoholic beverages.....	.....	.....	.....	.....	8	.....
Admission to theatres, concerts, cabarets, etc.....	30.9	.....	.....	.....	.....	.....
Club dues.....	8.7	.....	.....	.....	33	.....
Other duties.....	24.2	.....	.....	.....	16.2	.....
<i>Total excise and other duties.....</i>	622.2	14.49	655	16.87	666	17.41
<i>Total indirect taxation and taxes on transactions.....</i>	1,169.8	30.95	1,211.8	31.22	1,217.8	31.84
<i>Total revenue from taxation.....</i>	3,131.7	82.85	3,330.8	85.05	3,305.8	86.44
To adjust Internal Revenue figures to Treasury Records, add.....	+5	.....	.....	.....	.....	.....
<i>Total revenue from taxation as per Treasury Records.....</i>	3,136.7	82.98	2,200.8	85.05	3,305.8	86.44
Public domain.....	18.6	.49	18.5	.48	20.5	.53
Revenue-producing enterprises.....	30.1	.80	31.8	.82	31.7	.82
Interest, premium and discount.....	207.8	5.50	201.2	5.18	189.3	4.95

UNITED STATES—(Continued)

ANALYSIS OF REVENUE

	Actual Receipts		Estimates			
	1924-25		1925-26		1926-27	
	Amount (in Million Dollars)	Percentage of Total	Amount (in Million Dollars)	Percentage of Total	Amount (in Million Dollars)	Percentage of Total
<i>Sales of government property:</i>						
Sale of war supplies.....	16.6	.....	14.1	.....	6.6	.....
Miscellaneous government property.....	9.6	.....	10.7	.....	13.7	.....
<i>Total sales of government property..</i>	26.2	.69	24.8	.64	20.3	.53
<i>Federal Reserve Bank Franchise tax.....</i>	.6	.01	1	.03	1	.03
<i>Profits on coinage, bullion deposits, etc.....</i>	8.7	.23	8.5	.22	7.4	.19
<i>Fines, fees, forfeitures, etc.....</i>	33	.87	31.7	.81	32.1	.84
<i>Gifts and contributions.....</i>	6.4	.17	5.6	.14	5.6	.15
<i>Repayments of investments.....</i>	160.5	4.24	128.8	3.32	62	1.62
<i>Assessments and reimbursements.....</i>	32.1	.85	18.2	.47	32.8	.86
<i>District of Columbia receipts.....</i>	20.7	.54	25.1	.65	25.8	.67
<i>Trust funds.....</i>	82.5	2.18	76	1.96	82.6	2.16
<i>Miscellaneous receipts.....</i>	17	.45	9.1	.23	7.7	.20
<i>Total Receipts.....</i>	3,780.1	100	3,880.7	100	3,824.5	100

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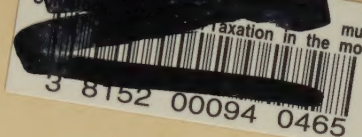
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